

ASIAN DEVELOPMENT BANK

**COUNTRY STRATEGY AND PROGRAM UPDATE
(2001-2004)**

AZERBAIJAN

July 2001

CURRENCY EQUIVALENTS

(as of 30 June 2001)

Currency Unit	–	Manat
Manat 1.00	=	\$0.00022
\$1.00	=	Manat 4,644

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
CSP	–	country strategy and program
DFID	–	Department for International Development
DMC	–	developing member country
ESW	–	economic and sector work
GDP	–	gross domestic product
IDP	–	internally displaced person
IMF	–	International Monetary Fund
IOS	–	interim operational strategy
IPF	–	indicative planning figure
JFPR	–	Japanese Fund for Poverty Reduction
MOED	–	Ministry of Economic Development
MOF	–	Ministry of Finance
MPG	–	Macroeconomic Policy Group
NPPR	–	national program for poverty reduction
SME	–	small and medium-sized enterprises
TA	–	technical assistance
UNDP	–	United Nations Development Programme

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars

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I. DEVELOPMENT SITUATION

A. Recent Political and Social Developments

1. The political situation in Azerbaijan is generally stable, with the main political uncertainty being the still-unsettled Nagorny-Karabakh dispute with Armenia. Both parties have been working toward a peaceful solution of this issue under the auspices of the Organization for Security and Cooperation in Europe. The recent peace negotiations held in Key West, Florida, United States, ended without concrete results, and further negotiations, originally scheduled to take place in Geneva in June 2001, have been postponed.

2. The appalling living conditions of the refugees and internally displaced persons (IDPs) residing in refugee camps and other temporary shelters are becoming a growing concern. Close to a million, IDPs and refugees have lived in temporary abodes for 7-8 years and their health and nutrition situation is fast deteriorating. Countrywide, about a fourth of the total households are malnourished with close to a third of the infant population chronically malnourished. Around 41 percent of the nonpregnant women are anemic and about 13 percent of the women IDPs suffer various illnesses.

B. Economic Assessment and Outlook

3. By and large, Azerbaijan faces a favorable environment for economic transition and development. The economic performance in Azerbaijan improved significantly in 2000 amid mild inflation, reduced fiscal and external deficit, comfortable foreign exchange reserves, and a manageable level of external debt. Growth of gross domestic product (GDP) during the last two years has been impressive, at 7.4 percent in 1999 and 11.1 percent in 2000. Detailed economic indicators are given in Appendix 1.

4. Despite vigorous economic growth, the Azeri economy still faces a number of intertwined challenges, including (i) low per capita income levels, (ii) high unemployment rate, (iii) the imbalanced nature of recent economic growth, and (iv) weak governance and institutional capacity. GDP per capita in Azerbaijan is still lower than in many of the Commonwealth of Independent States countries. A major reason for the low incomes is the limited job opportunities. While registered unemployment is 1.2 percent, other estimates peg unemployment (including underemployment) to as high as 25 percent. The slow progress in expanding employment and income opportunities calls for a deepening of structural reforms in order to diversify the economy toward more labor-intensive (i.e., non-oil) sectors. Azerbaijan's recent growth performance is attributed largely to the revenues generated by its oil-based sector. Increasingly, reliance on this resource-based sector could lead to a Dutch Disease growth path.¹ Such a path would have an adverse effect on the already deep and widespread poverty in Azerbaijan, because it would limit even further employment and income-generation opportunities, while making the economy more vulnerable to external shocks. Finally, weaknesses in the Government's institutional capacity coupled with insufficient appreciation of the multifaceted dimensions of poverty have constrained effective formulation of the poverty-reduction policies.

¹ The term "Dutch Disease" was originally used to characterize the impact of the rapid expansion in the Netherlands' natural gas production and the associated squeeze on other traditional export sectors in the Dutch Economy. In the context of Azerbaijan, it refers to the potential of a booming oil sector crowding out already lagging manufacturing and agricultural sectors.

5. In recent months, the Government has demonstrated a renewed commitment to economic and institutional reform. A new privatization program has been launched, with the focus on privatizing large-scale state-owned enterprises in key infrastructure sectors such as energy, transportation, and telecommunications. Another recent important development is in the area of institutional reforms. Presidential decrees were recently signed for the creation of Fuel and Energy Ministry, Ministry of Economic Development (MOED), Ministry of Ecology and Natural Resources, along with the merging, streamlining, and abolition of several other ministries and state committees. The International Monetary Fund (IMF) has responded to these new institutional reforms by approving a new Poverty Reduction Growth Facility program. In parallel with the IMF's program, the World Bank has been preparing a Structural Adjustment Credit to support structural reforms, especially in the area of private sector development in the utility industries.

6. The short-to-medium term economic outlook remains positive, although the annual GDP growth is projected to be slower during 2001-2004 than in 2000 due to an anticipated decline in the world oil price and existing oil export capacity constraints. The positive growth prospect stems primarily from expected higher investment to develop the country's major oil and gas fields. Since oil revenue is not expected to greatly increase before the year 2005, the higher investment is expected to increase pressure on the current account balance. In the circumstances, the Government should maintain its current tight fiscal and slightly loose monetary policy mix. Inflation in 2001 is targeted at 2.5 percent. The fiscal deficit is estimated at 2.6 percent of GDP for 2001. The monetary and fiscal targets are considered realistic in relation to the heightened growth prospect. However, it remains a challenge for the Government to increase the much-needed social expenditures while keeping the fiscal deficit under control. Increased foreign investment would also place pressure on the exchange rate to appreciate.

C. Implications for the Country Strategy and Program

7. The 2001-2004 country strategy and program (CSP) update² takes its strategic directions from the interim operational strategy (IOS) of the Asian Development Bank (ADB) for Azerbaijan endorsed by the Board in December 2000. The inequitable nature of continuing economic growth and the urgent need to assist growing numbers of poor, especially the IDPs, were the major underlying concerns in formulating the country strategy. The overarching goal of the IOS is to reduce poverty and raise the people's living standards in Azerbaijan. This is to be achieved through (i) enhancing human development, (ii) supporting good governance and institutional strengthening, and (iii) promoting sustainable growth. ADB's assistance in Azerbaijan has been oriented along a two-pronged strategy, where ADB will (i) help the Government strengthen the effective provision of essential public goods and services to those in greatest need, and (ii) provide assistance to help correct for imbalanced growth by strengthening the environment for competitive private investment and job creation. In addressing each prong, ADB's operations will be policy driven, with a special emphasis on good governance and strengthening institutions.

8. Recent developments in Azerbaijan have two implications for the formulation and implementation of the CSP. First, with current and projected economic growth and higher budget revenues, counterpart funds for ADB-assisted projects should not be a constraint in the short-term. Second, the Government's renewed commitment for the reform and privatization processes is a positive signal to the funding community. More specifically, the new developments provide ADB with an opportunity to extend assistance for improvements in

² This is the first year in which a programming paper has been prepared for Azerbaijan. Therefore, the coverage of the report will be 2001-2004 instead of 2002-2004.

governance and strengthening of public institutions in Azerbaijan. However, one risk may slow or even stall the new phase of reforms: the risk that vested interests, deeply entrenched in the status quo, may hinder the institutional reforms.

9. To mitigate the risk, external support is critical to encourage the Government to continue and actively pursue the course of deeper reforms. Given its status as a new partner of the country, ADB needs to quickly disseminate information on its policies and procedures,³ and build up its own knowledge base in Azerbaijan in order to assist the Government to pursue the course of deeper reforms. To achieve this, ADB's economic and sector work program should be employed to selectively review institutional and policy aspects of the Government, focusing on strategically important themes and/or sectoral issues.

10. ADB is a newcomer to Azerbaijan compared to the other multilateral and bilateral agencies operating there, and good collaboration with them is essential to ensure the efficiency and effectiveness of ADB's assistance. Many of the agencies have similar concerns and share the same broad agenda as ADB in terms of assistance for poverty reduction, governance, and institutional strengthening in Azerbaijan. Going forward, ADB will remain committed to ensuring that its assistance – both lending and nonlending – is strategically focused, carefully framed, and well-positioned.

II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Poverty Reduction

11. According to official statistics (1995), the poverty incidence was over 60 percent of total households. More recent preliminary information indicates that (i) the number of poor has remained unchanged (due to the limited job and income opportunities), and (ii) the income gap between the poor and the rich has widened.

12. In line with the IOS, ADB's assistance for poverty reduction is phased as follows. First, ADB will support the Government's initiatives in the poverty assessment and strategy formulation processes. The two main activities are assistance for (i) poverty data analysis, and (ii) preparation of the national poverty reduction strategy. ADB has approved a small-scale technical assistance (TA) to the State Committee of Statistics, which will help build capacity within the agency to ensure that latest statistical data from annual household income and expenditure surveys will be available to economic policymakers for poverty analysis.⁴ ADB will also assist the Government in preparing its national program for poverty reduction (NPPR). ADB's involvement will be closely coordinated with the Government's Steering Committee for NPPR, the MOED, and other external agencies such as IMF, United Nations Development Programme (UNDP), and World Bank. ADB will initiate its poverty reduction partnership process in Azerbaijan with the preparation of poverty analysis paper in late 2001. A high-level forum and a poverty reduction partnership agreement are scheduled in the first quarter of 2002.

13. Second, ADB's sector operations in Azerbaijan will have a strong poverty reduction focus. The proposed basic infrastructure development project in 2002 will provide much needed local water supply, sanitation, and other community-level infrastructure in a few secondary towns. The proposed Samur-Apsheron water supply and irrigation projects (to be implemented in two stages) aim to improve the livelihoods and health conditions in northeast Azerbaijan,

³ TA 3629-AZE: *Seminars on ADB Operational Policies and Procedures*, for \$150,000, approved on 2 February 2001, will help fill this need.

⁴ TA 3664-AZE: *Capacity Building for Poverty Data Analysis*, for \$150,000, approved on 6 June 2001.

through provision of irrigation services for the poor farmers. Five of the seven loans programmed for 2002-2004 are classified as poverty, including core poverty, interventions. This accounts for 77 percent of the total lending volume for that period.

14. Third, ADB will support the Government's efforts to assist IDPs. ADB's assistance will aim at helping the IDPs to: (i) gain equal access to essential public services that are available to other population groups in local communities, and (ii) achieve self-reliance and reintegration into the economic mainstream. ADB assistance to IDPs will be undertaken in a phased manner. First, ADB will start processing in 2001 a project to aid the integration of IDPs in Mingechevir City into the economic mainstream, with financing from the Japanese Fund for Poverty Reduction (JFPR). Second, a project to finance new IDP settlements will be undertaken in 2004. The processing of this project will depend on successful resolution of several important issues, including undertaking of studies on voluntary relocation of IDPs, their future economic activity prospects in the new settlement areas, and their legal titles to the property in the new areas.

B. Thematic Priorities

1. Economic Growth

15. One of the three main strategic objectives in the IOS is to promote sustainable economic growth. Given the severity of poverty in Azerbaijan, economic growth must be relied upon as the most effective and sustainable way to reduce poverty. Growth and development in the rural areas, secondary towns, and in the non-oil sector, upon which most of the poor rely on for their daily living, is essential.

16. Given the geographic situation in the Caucasus Region, efficient road infrastructure is of vital importance to ensure efficient trade flows and, thereby, balanced development of Azerbaijan's economy. Existing major roads need repair in many parts of the country and the deterioration appears to be accelerating. The IOS supported the need for road rehabilitation, including the improvement of rural roads connected to the main road network. The present system of organization, financing, and management in the road sector must be reformed. The reform focus should include enhancing the policy-making and regulatory capacity of the newly established (but as yet unstaffed) transportation ministry, improving road safety, reducing vehicle emissions, and introducing private participation especially in road maintenance and the financing of road projects. Two road loans have been included in the 2002-2004 program to improve the central and the southern Azerbaijan road systems.

2. Human Development

17. Social and economic reforms have proceeded steadily and the Government has remained committed to fighting poverty. However, the social indicators in Azerbaijan have not improved significantly in recent years. Although the country's human development index improved marginally from 0.706 in 1997 to 0.719 in 1999,⁵ disturbing developments in individual indicators have emerged. For instance, enrolment of preschool children declined from 181,000 in 1990 to 112,000 in 1999. Moreover, while the quantity of medical personnel and health infrastructure may be adequate, the quality of health care services has deteriorated. Detailed social and environmental indicators are given in Appendix 2.

⁵ United Nations Development Programme. *National Human Development Report on Azerbaijan: 2001*, Baku, Azerbaijan, March 2001.

18. In pursuit of the IOS objective of enhancing human development, ADB's assistance will focus on addressing the most pressing basic needs of the population. ADB's planned assistance in developing basic infrastructure services, such as water supply and sanitation in secondary towns and rural communities, will improve the living conditions of the affected population. Likewise, ADB's assistance for the IDPs, through development of social infrastructure in selected locations, will address the basic human needs of this severely disadvantaged group. ADB does not envisage assisting in the education sector or for social protection due to the presence of other donors in these areas, notably World Bank. Assistance to the health sector is considered in the latter part of the program, but would depend on the progress of sector reforms.

3. Gender and Development

19. Similar to other former Soviet republics, Azerbaijan's legal and administrative systems protect women from discrimination. However, transition in the past 10 years has brought considerable economic and social costs and, in some cases, more on women than on others. ADB will pay close attention to gender and child development issues in Azerbaijan. The lack of adequate nutrition endangers the physical and mental development of the poor, especially the 25 percent of IDPs who suffer from chronic malnutrition. A grant assistance⁶ to arrest the trend in micronutrient deficiencies in selected countries in Central Asia is being considered for extension to Azerbaijan. In addition, a project preparatory TA for early childhood development will strengthen the protection of children and improve prenatal women's health.

4. Good Governance

20. Another of the IOS' main strategic objectives is supporting good governance and institutional strengthening. The major difficulties in this regard have been the lack of participation, predictability, transparency, and accountability in key governmental and market institutions. The Government is currently in the midst of a major restructuring exercise, and the World Bank is assisting the Government on a project for public sector reform program. ADB's assistance for governance will carefully take into account these activities in determining its future strategy. In 2001, ADB will initiate the work on governance assessment, including a review of the new institutional structure of the Government. The governance assessment will be a key input into future policy dialogue and ADB operations. Through ongoing dialogue, ADB will support the Government's anticorruption policy in line with the two Presidential decrees on combating corruption.

21. Capacity building of public institutions for improved governance is a critical element for achieving poverty reduction. In addressing institutional strengthening issues, ADB's assistance will follow the two-pronged approach presented in the IOS (para. 7). To address the IOS's first prong of direct assistance to the poor, ADB will provide immediate institutional strengthening assistance to the NPPR process, and to addressing the needs of the IDPs at central and local levels. In terms of the second prong, ADB has already approved assistance to the Ministry of Finance to strengthen the capacity of the Macroeconomic Policy Group (MPG) to formulate sound economic policy,⁷ and a TA project is proposed in 2002 to strengthen MOED's ability to fulfill its mandate. Over the medium-term, ADB will help prepare a public investment program, build capacity in financial institutions, and strengthen Government's ability to undertake effective public budget management.

⁶ JFPR-REG 9005: *Improving the Nutrition of Poor Mothers and Children in Asian Countries in Transition*, for \$6,000,000 on 26 April 2001.

⁷ TA 3661-AZE: *Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance*, for \$760,000, approved on 31 May 2001.

22. Two important aspects of governance that need to be embodied in ADB's assistance are (i) adoption of lessons learned by other funding agencies, and (ii) ensuring the full commitment of the Government to ADB's activities. In terms of lessons learned, ADB will support the extension of the so-called MPG model,⁸ to other agencies such as the MOED to strengthen its capacity to implement the NPPR and to formulate a policy on competition. In terms of Government commitment, the level of institutional change and capacity building required are substantial, and Government cooperation, support and resources will be needed to achieve this task. The Government needs to consider the use of their own resources to ensure that institutions can support the substantial policy reforms, implement the investment initiatives, and provide the needed support services to the emerging private sector.

5. Private Sector Development

23. Private sector development has suffered from excessive bureaucracy as a result of nontransparent and inconsistent policies and rules. In particular, much needed management skills and technology have been slow to come in for existing enterprises, and little new domestic and foreign investments has flowed into the non-oil sector. In line with the IOS strategy for assisting non-oil sector development, ADB will help develop SMEs. As a first step, ADB will provide assistance to capacity building for MOED, which is responsible for SME development. Second, assistance will be extended to MOED to examine and further develop the recently-prepared *State Program for the Development of Small and Medium Enterprises in Azerbaijan (2001-2003)* and to formulate a policy on competition. Depending on the results of these activities, a loan for SME development could be considered in 2005 (project preparatory TA is scheduled in 2004). Assistance to SMEs will have an important impact on the country by helping it to achieve a more balanced sector and regional development.

24. With the unveiling of the new privatization program by the Government (para. 5), ADB will closely investigate possible support for private sector activities in Azerbaijan. A private sector assessment planned for first quarter of 2002 will review the Government's policy on restructuring and privatization in the various sectors.

6. Environmental Protection

25. Environmental degradation is widespread in Azerbaijan, and has not fundamentally improved during the transition to a market economy. Among these problems are the issue of water quantity and quality, and the issue of land degradation. In its proposed assistance for Samur-Aspheron water supply and irrigation project, ADB will help to relieve the problem of water shortage and water quality. Similarly, the proposed assistance for flood protection and irrigation will assist to address related land degradation issues, including inefficient watershed management.

7. Regional Cooperation

26. Azerbaijan has great potential as a hub for regional social and economic activities and for transits between Asia and Europe. Developing regional markets will be particularly important due to the emphasis on developing the non-oil and agriculture sectors.

⁸ The Macroeconomic Policy Group (MPG) model was developed by the Department for International Development (DFID) and was used successfully to strengthen the operations of the Ministry of Finance (MOF) in Azerbaijan during 1999-2001. The model has thus far greatly improved the treasury and fiscal operations and policies of MOF and it is increasingly influencing policy formulation in the rest of the Government.

27. Due to Azerbaijan's geographical proximity and similarities in the transition experiences, ADB's support will have a strong focus on subregional economic cooperation with ADB's developing member countries in Central Asia. ADB is currently assessing the ways to integrate Azerbaijan into the current regional cooperation program in Central Asia. Important areas of regional cooperation may include energy, transport, and cross-border trade. ADB could also facilitate sharing of development experience. One policy issue common to several developing member countries relates to administration of oil and mineral funds in the Central Asian Region. The Government has expressed strong interest in working with ADB in these areas.

III. PORTFOLIO MANAGEMENT ISSUES

28. Since Azerbaijan is a new member, there are not yet any portfolio management issues.

IV. COUNTRY PERFORMANCE AND LENDING LEVELS

A. Proposed Lending Level

29. Azerbaijan is classified as a B1 country, which makes it eligible for resources predominantly from the Asian Development Fund (ADF). The actual annual ADF lending level will be determined every year from 2002, based on the country's performance on economic and social developments. The assessment of performance will be based on (i) macroeconomic stability, (ii) social development and poverty reduction, (iii) governance, and (iv) portfolio performance. Under a base case scenario, ADF assistance would be expected to be about \$70 million over the three year 2002-2004 period, while a high case scenario could raise lending as high as \$85 million over three years, and a low case scenario would lower lending as low as \$55 million. The triggers in these lending cases are shown in Appendix 3, page 6.

30. The **low case** scenario assumes no major progress in the macroeconomic and social situation, limited progress in key sectoral reforms, including governance, limited progress in finalizing a national poverty reduction strategy, and a weak portfolio performance.

31. Under the **base case** scenario, the Government will need to demonstrate continued commitment to macroeconomic stability, steady progress of structural reforms in selected sectors, institutional reforms toward good governance, satisfactory progress in preparing its poverty reduction strategy, and good portfolio performance.

32. Under the **high case** scenario, strong macroeconomic performance, especially in the non-oil sectors, improved progress of structural reforms in additional sectors (energy and health) vis-à-vis the base case, and strong improvement in good governance would be evident.

33. Azerbaijan is also eligible for ADB's assistance funded by its Ordinary Capital Resources (OCR) for revenue-earning projects. The OCR assistance to Azerbaijan could be amounted up to the same level of the ADF assistance during 2002-2004.

B. Loan Program

34. The loan program for ADF and OCR during 2002-2004, as agreed upon by the Government, is in Appendix 3. In view of Azerbaijan's unfamiliarity with ADB's policies and procedures and its limited absorptive and implementation capacity, a modest lending program is designed during the initial stage. The lending program consists of seven public sector loans totaling \$168 million. No loan is programmed for 2001. During 2002-2004, five of the seven programmed loans (77 percent of the total lending) are classified as poverty, including core

poverty, interventions. In view of the limited capacity during the initial years of operations, the program focuses in four selected areas: assistance for IDPs, rural development, water supply and sanitation, and roads. The selection of these areas is based on the following considerations:

- (i) support is critical for combating poverty, especially among IDPs;
- (ii) the priorities in the Government's development strategy;
- (iii) areas that are in line with the Azerbaijan IOS, but focused on selected areas in view of the limited capacity;
- (iv) areas in which other funding agencies are not very active (e.g., water supply and sanitation, and secondary towns); and
- (v) sectors, such as rural development and roads, in which ADB has a comparative advantage in Central Asian countries.

35. In conjunction with ADB's lending program, ADB will actively pursue loan and grant cofinancing from official sources to effectively address the important sectoral and thematic issues in Azerbaijan. As appropriate, commercial cofinancing and guarantee opportunities will also be explored for viable projects.

C. Technical Assistance and Economic and Sector Work Program

36. The TA and economic and sector work (ESW) program for 2001-2004 is aimed at supporting lending operations and strengthening the capacities of the Government and executing agencies. The TA program covers 18 TA projects totaling \$10 million (Appendix 3).

37. The ESW program is formulated in close consideration of the lending and TA activities during 2001-2004, and is aimed at providing input to policy dialogue and ADB's overall assistance to Azerbaijan. The ESW program (Appendix 4) will focus on the following:

- (i) macroeconomic analysis for better understanding of the country's economic situation, and for policy dialogue with the Government;
- (ii) poverty analysis and studies to provide analytical support for poverty reduction;
- (iii) structural reforms for effective strategies for sector development and regional cooperation; and
- (iv) policy and institutional reviews to support good governance.

38. Appendix 5 provides the project selection briefs and TA concept papers for ADB's proposed activities.

D. Summary of Changes

39. This is the first year in which a country programming paper is being prepared for Azerbaijan. Therefore, there are no changes vis-à-vis last year.

APPENDIXES

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ECONOMIC INDICATORS

Item	1995	1996	1997	1998	1999	2000
A. Income and Growth						
1. GDP per Capita (\$, current)	313.9	407.4	502.0	559.0	568.0	652.0
2. GDP Growth (% , in constant prices)	(11.8)	1.3	5.8	10.0	7.4	11.1
a. Agriculture	(7.0)	3.0	(3.9)	3.9	7.1	12.1
b. Industry	(18.4)	8.4	14.8	20.5	3.6	6.9
c. Services	(8.1)	(5.9)	11.2	6.4	8.2	13.8
B. Money and Inflation						
			(annual percent change)			
1. Consumer Prices (annual average)	411.7	19.8	3.6	(0.8)	(8.5)	1.8
2. Consumer Prices (end of period)	84.5	6.8	0.4	(7.6)	(0.5)	2.2
3. Broad Money (Manat, end of period; M2)	122.2	25.7	29.2	(21.7)	15.2	18.3
C. Government Finance						
			(percent of GDP)			
1. Revenue (general government revenues)	24.3	23.3	19.1	19.5	18.2	17.9
2. Total Expenditure	29.2	26.1	20.8	23.7	23.7	20.9
3. Overall Surplus/Deficit (-)	(4.9)	(2.8)	(1.7)	(4.2)	(5.5)	(3.0)
D. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	(11.4)	(17.3)	(14.3)	(25.0)	(10.2)	0.1
2. Current Account Balance (% of GDP)	(13.2)	(25.5)	(24.5)	(30.5)	(13.2)	(2.7)
3. Export (\$) Growth (annual percent change)	(0.3)	16.0	2.5	(16.1)	51.5	83.6
4. Import (\$) Growth (annual percent change)	13.0	40.1	2.7	24.8	(16.6)	7.5
E. External Payments Indicators						
1. Gross International Reserves (\$ million, end of period)	119.0	214.0	469.0	450.0	676.0	680.0
- months of imports	1.2	1.9	3.7	3.0	4.0	3.2
2. External Debt Service (% of exports of goods and services)	7.9	9.7	7.3	4.6	4.8	4.4
3. External Debt (% of GDP)	17.3	16.6	10.2	11.4	21.2	23.0
F. Memorandum Items:						
GDP (current prices, Manat billion)	10,669.0	13,664.0	15,791.0	17,203.0	18,771.0	23,565.0
Exchange Rate (Manat per \$, annual average)	4,413.5	4,301.3	3,985.4	3,868.8	4,150.5	4,472.0
Population (million)	7.7	7.8	7.9	8.0	8.0	8.0

GDP = gross domestic product.

Sources: Azerbaijan authorities, the International Monetary Fund, and Asian Development Bank staff estimates.

SOCIAL AND ENVIRONMENTAL INDICATORS

Table A2.1: Population and Social Indicators

Item	1985	1990	Latest Year	
Population Indicators				
Total Population (million)	–	7.22 (1991)	8.02	(2000)
Rural Population (% of total population)	–	46.5 (1991)	49.0	(2000)
Annual Growth Rate (%)	–	1.2 (1995)	1.01	(2000)
Social Indicators				
Total Fertility Rate (births per woman)	–	–	2.0	(1999)
Maternal Mortality Rate (per hundred thousand live births)	–	22.0	43.4	(1999)
Infant Mortality Rate (below 1 year; per '000 live births)	–	23.0	16.5	(1999)
Life Expectancy at Birth (years)	–	71.1	71.6	(1999)
Female	–	74.8	75.1	(1999)
Male	–	67.0	68.1	(1999)
Adult Literacy (%)	–	–	97.3	(1999)
School Enrollment for all levels (% of children aged 6-23)	–	–	61.7	(1999)
Population Below Poverty Line (%)	–	–	61.5	(1995)
Income Ratio of Highest 10% to Lowest 10%	–	–	–	
Percent of Rural Households with Access to Safe Water (%)	–	–	63.0	(1996)
Percent of Rural Households with Access to Sanitation (%)	–	–	–	
Public Education Expenditure as % of GDP	–	–	4.8	(1999)
Public Health Expenditure as % of GDP	–	–	1.1	(1999)
Social Security Expenditure as % of GDP	–	–	–	
Human Development Index	–	0.75	0.719	(1999)
Human Development Ranking	–	62	90	(1998)

– not available; GDP = gross domestic product.

Sources: Asian Development Bank, Economic Report and Interim Operational Strategy for Azerbaijan, December 2000.
 State Statistical Committee of Azerbaijan Republic, 2000 Statistical Yearbook, August 2000.
 United Nations Development Programme, Azerbaijan Human Development Report 2000, March 2001
 World Bank, World Development Indicators 1999.

Table A2.2: Environmental Indicators

Item	1985	1990	Latest Year	
Forestry				
Total Forest Area (thousand km ₂)	–	10.0 (1995)	–	
Biodiversity				
Nationally protected area				
Area (km ²)	–	4.8 (1996)	–	
Number	–	–	–	
As % of land area	–	5.5 (1996)	–	
Wetlands of international importance				
Area (thousand hectares)				
Number				
Land Use (thousand hectares)	–	17.6 (1994)	115.4	(1999)
Arable agricultural lands	–	12.4 (1994)	111.8	(1999)
of which area sown	–	6.8 (1994)	91.5	(1999)
Air Pollution				
Total discharge of air contaminants (thousand tons)	–	2,846.1	917.1	(1999)
of which from stationary sources	–	2,108.5	574.7	(1999)
of which from motor transport	–	737.6	342.4	(1999)
Water Pollution				
Extraction of water from natural resources (million cubic meters)	–	16.2	12.0	(1999)
Discharge of untreated effluents into water bodies (million cubic meters)	–	303.0	167.0	(1999)
Global Environmental Problems				
Total CO ₂ emissions (million metric tons)	–	30.1 (1996)	–	
Per capita CO ₂ emissions (metric tons)	–	4.0 (1996)	–	

– not available, CO₂ = carbon dioxide, GDP = gross domestic product, km² = square kilometer.

Sources: Asian Development Bank, Economic Report and Interim Operational Strategy for Azerbaijan, December 2000.
 State Statistical Committee of Azerbaijan Republic, 2000 Statistical Yearbook, August 2000.
 United Nations Development Programme, Azerbaijan Human Development Report 2000, March 2001.
 World Bank, World Development Indicators 1999.

LOAN AND TECHNICAL ASSISTANCE PROGRAM

Table A3.1: Lending Program, 2002-2003

Sector and Project Name	Poverty Classification	Thematic Priority	Responsible Division	Year of PPTA	Project Cost (\$ million)					
					Total	ADB		Government	Cofinancing/ Others	
						OCR	ADF			Total
2002										
Agriculture and Rural Development										
Flood Protection and Irrigation	PI	HD	AEAR	2001	TBD	22.0	-	22.0	TBD	TBD
Subtotal					TBD	22.0	0.0	22.0	TBD	TBD
Social Infrastructure										
Basic Infrastructure Development	CPI	HD	AEWU	2001	TBD	-	23.0	23.0	TBD	TBD
Subtotal					TBD	0.0	23.0	23.0	TBD	TBD
Total					TBD	22.0	23.0	45.0	TBD	TBD
2003										
Agriculture and Rural Development										
Samur-Apshehon Water Supply and Irrigation (First Stage)	PI	HD	AEFN	2002	TBD	7.0	23.0	30.0	TBD	10.0
Subtotal					TBD	7.0	23.0	30.0	TBD	TBD
Transport and Communications										
Central Corridor Roads Improvement	CPI	GG	IETC	2002	TBD	18.0	-	18.0	TBD	TBD
Subtotal					TBD	18.0	0.0	18.0	TBD	TBD
Total					TBD	25.0	23.0	48.0	TBD	TBD

ADB = Asian Development Bank, ADF = Asian Development Fund, AEAR = Agriculture and Rural Development Division East, AEFN = Forestry and Natural Resources Division East, AEWU = Water Supply, Urban Development and Housing Division East, CPI = core poverty intervention, GG = good governance, HD = human development, IETC = Transport and Communication Division East, OCR = ordinary capital resources, PI = poverty intervention, PPTA = project/program preparatory technical assistance, TBD = to be determined.

Table A3.2: Lending Program 2004

Sector and Project Name	Poverty Classification	Thematic Priority	Responsible Division	Year of PPTA	Project Cost (\$ million)					
					Total	ADB		Government	Cofinancing/ Others	
						OCR	ADF			Total
Agriculture and Rural Development										
Samur-Apsheron Water Supply and Irrigation (Second Stage)	PI	HD	AEFN	2002	TBD	7.0	23.0	30.0	TBD	10.0
Subtotal					TBD	7.0	23.0	30.0	TBD	TBD
Transport and Communications										
Southern Azerbaijan Roads Improvement	CPI	GG	IETC	2003	TBD	20.0	-	20.0	TBD	10.0
Subtotal					TBD	20.0	0.0	20.0	TBD	TBD
Total					TBD	27.0	23.0	50.0	TBD	TBD
Standby										
New Settlements Basic Infrastructure	CPI	HD	AEWU	2003	TBD	-	25.0	25.0	TBD	TBD

ADB = Asian Development Bank, ADF = Asian Development Fund, AEFN = Forestry and Natural Resources Division East, AEWU = Water Supply, Urban Development and Housing Division East, CPI = core poverty intervention, GG = good governance, HD = human development, IETC = Transport and Communication Division East, OCR = ordinary capital resources, PI = poverty intervention, PPTA = project/program preparatory technical assistance, TBD = to be determined.

Table A3.3: Technical Assistance Program, 2001^a

Sector/Project Name	Responsible Division	Type of TA	Amount ('000)		Total
			ADB	Others	
Agriculture and Rural Development					
Flood Protection and Irrigation	AEAR	PP	700.0	-	700.0
Subtotal			700.0	0.0	700.0
Social Infrastructure					
Basic Infrastructure Development in Secondary Towns and Communities	AEWU	PP	740.0	-	740.0
Subtotal			740.0	0.0	740.0
Others					
Seminars on ADB Operational Policies and Procedures	PE2	AD	150.0	-	150.0
Capacity Building for Poverty Data Analysis	PE2	AD	150.0	-	150.0
Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance	PE2	AD	762.0	-	762.0
Subtotal			1,062.0	0.0	1,062.0
Total			2,502.0	-	2,502.0
Standby					
Poverty Reduction Strategy Support	PE2	AD	0.0	200.0	200.0

AD = advisory, ADB = Asian Development Bank, AEAR = Agriculture and Rural Development Division East, AEWU = Water Supply, Urban Development and Housing Division East, PE2 = Division East 2, PP = program/project preparatory, TA = technical assistance.

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

Table A3.4: Technical Assistance Program, 2002^a

Sector/Project Name	Responsible Division	Type of TA	Amount ('000)		Total
			ADB	Others	
Agriculture and Rural Development					
Samur-Apsheron Water Channel	AEFN	PP	800.0	-	800.0
Subtotal			800.0	0.0	800.0
Transport and Communications					
Central Corridor Roads Improvement	IETC	PP	600.0	-	600.0
Subtotal			600.0	0.0	600.0
Others					
Poverty Reduction Strategy Support	PE2	AD	0.0	200.0	200.0
Capacity Building for Ministry of Economic Development	IEFI	AD	450.0	-	450.0
Capacity Building for Key Sectoral Ministries	TBD	AD	450.0	-	450.0
Subtotal			900.0	0.0	1,100.0
Total			2,300.0	200.0	2,500.0

AD = advisory, ADB = Asian Development Bank, AEFN = Forestry and Natural Resources Division East, IEFI = Financial Sector and Industry Division East, IETC = Transport and Communication Division East, PE2 = Division East 2, PP = program/project preparatory, TA = technical assistance, TBD = to be determined.

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

Table A3.5: Technical Assistance Program, 2003-2004^a

Sector/Project Name	Responsible Division	Type of TA	Amount ('000)		Total
			ADB	Others	
2003					
Social Infrastructure					
New Settlements for IDPs	AEWU	PP	850.0	-	850.0
Subtotal			850.0	0.0	850.0
Transport and Communications					
Southern Azerbaijan Roads Development	IETC	PP	700.0	-	700.0
Subtotal			700.0	0.0	700.0
Others					
Capacity Building for Public Investment Program	PE2	AD	500.0	-	500.0
Capacity Building for SME Development and Formulation of a Competition Policy	IEFI	AD	450.0	-	450.0
Subtotal			950.0	0.0	950.0
Total			2,500.0	-	2,500.0
2004					
Finance and Industry					
Small and Medium Enterprise Development	IEFI	PP	600.0	-	600.0
Subtotal			600.0	0.0	600.0
Social Infrastructure					
Strengthening Early Childhood Development	AEEH	PP	600.0	-	600.0
Subtotal			600.0	0.0	600.0
Others					
Strengthening of Financial Institutions	IEFI	AD	600.0	-	600.0
Capacity Building for Public Budget Management and Municipal Reform	AEWU	AD	700.0	-	700.0
Subtotal			1,300.0	0.0	1,300.0
Total			2,500.0	-	2,500.0

AD = advisory, ADB = Asian Development Bank, AEEH = Education, Health and Population Division East, AEWU = Water Supply, Urban Development and Housing Division East, IDP = internally displaced person, IEFI = Financial Sector and Industry Division East, IETC = Transport and Communication Division East, PE2 = Division East 2, PP = program/project preparatory, TA = technical assistance.

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

Table A3.6: Triggers for 2002 Lending Program

Low Case	Base Case	High Case
<ul style="list-style-type: none"> No significant progress in macroeconomic stability or deterioration in performance 	<ul style="list-style-type: none"> Satisfactory progress in improving macroeconomic stability, including (i) moderate inflation, and (ii) maintenance of essential public expenditures at the existing level 	<ul style="list-style-type: none"> Strong macroeconomic performance, especially in non-oil sectors, supported by effective macroeconomic policies including increased essential public expenditures on education, health and social protection
<ul style="list-style-type: none"> Limited progress in key sectoral reforms 	<ul style="list-style-type: none"> Steady progress in selected sectors such as water supply and roads 	<ul style="list-style-type: none"> Improved progress extended to other key sectors such as energy and health
<ul style="list-style-type: none"> Limited progress in implementing the measures of poverty reduction that has been adopted in the Government's interim national program for poverty reduction (I-NPPR)^a 	<ul style="list-style-type: none"> Satisfactory progress in the I-NPPR implementation 	<ul style="list-style-type: none"> Preparation of the national program for poverty reduction (NPPR) and the poverty reduction partnership agreement
<ul style="list-style-type: none"> Limited effort in adopting measures to improve governance 	<ul style="list-style-type: none"> Satisfactory implementation of the on-going government restructuring 	<ul style="list-style-type: none"> Improvement in institutional capacity of public investment management

^a Also known as the "interim poverty reduction strategy paper", which was issued by the Government in May 2001.

ECONOMIC AND SECTOR WORK PROGRAM

Type of ESW	Strategic or Operational Objective	Modality
1. Economic Work		
(i) Country economic update/review	Macroeconomic analysis and country operational study	Staff
(ii) Country strategy and program	Update the interim operational strategy	Staff
2. Thematic Work		
(i) Feasibility study of regional economic cooperation between Central Asia and Azerbaijan	Assess ways to integrate Azerbaijan into subregional economic cooperation	Staff/staff consultant
(ii) Poverty analysis paper in connection with preparation of poverty-reduction partnership agreement	Poverty reduction	Staff
(iii) Budgetary review on support for essential services to the poor	Poverty reduction, good governance	Staff/staff consultant
(iv) Institutional review of the impact of government restructuring	Good governance and institutional strengthening	Staff/staff consultant
(v) Assessment of local fiscal capacity	Good governance and institutional strengthening at subnational level	Staff/staff consultant
(vi) Study on public investment performance	Structural reforms, sector capacity building for public investment management	ADTA (Capacity Building for Public Investment Program)
(vii) Governance and policy review on selected key social and infrastructure sectors	Good governance and policy review on selected key social and infrastructure sectors	Staff/staff consultant

Type of ESW	Strategic or Operational Objective	Modality
3. Sector Work		
(i) Sector review of basic and social infrastructures	Support development in basic and social infrastructure sectors, especially for IDPs	PPTA (Basic Infrastructure Development in Secondary Towns and Communities)
(ii) Rural development strategy study	Develop strategies for agricultural and rural development	PPTA (Flood Protection and Irrigation)
(iii) Sector study of development opportunities for SMEs	Economic growth, private sector development	ADTA (Capacity Building for SME Development and Formulation of a Competition)

ADTA = advisory technical assistance, IDP = internally displaced person, PPTA = project /program preparatory technical assistance, SME = small-and medium-sized enterprises.

PROJECT SELECTION BRIEFS AND TA CONCEPT PAPERS

Table A6.1: Project Selection Brief for Flood Protection and Irrigation Project

A. Data	
Project Number:	
Country:	Azerbaijan
Sector:	Agriculture, Water Resources Management
Subsector:	Flood Control, Irrigation
Project Division:	AEAR
Contact Person in Projects Division:	S. Scheierling
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$22 million
Proposed Lending Modality:	OCR
PPTA:	Flood Protection and Irrigation
Proposed PPTA Amount:	\$700,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Predesign Phase:	IV Qtr 2001
Start Design Phase:	I/II Qtr 2002
Approval Year According to CSP:	2002
Proposed Executing Agency:	State Committee for Water Resources Management
Contact Person in Proposed Executing Agency:	Mr. A. Ahmadzada, Chairman
B. Description	
Brief Rationale of Project	<p>Azerbaijan has favorable growing conditions for a wide variety of crops, which are dependent on irrigation. Irrigation is a key input for reliable crop production.</p> <p>Many of the irrigation systems were developed during the former Soviet period. Operation and maintenance has been less than required and consequently the irrigation systems and drainage channels are deteriorating. This has resulted in irregular and inadequate availability of irrigation water at farm level, resulting in lower than potential yields. Also the lack of adequate drainage is suppressing yields and increasing salinity and water logging is reducing the arable area.</p> <p>In some parts of the country, severe flooding reduces the area available for cultivation or destroys crops.</p>

	<p>The proposed project will support the introduction of flood control measures and/or the rehabilitation of key irrigation areas. The project will minimize flood damage in such areas as Sheki-Zagatala and elsewhere, and increase the efficiency of water use for irrigation in selected systems such as Airychai, Shamkir, and Tovuzchai.</p> <p>A PPTA will determine the scope of the project which could include flood mitigation measures; drainage and irrigation system rehabilitation and /or completion; and institutional development, including water user associations and capacity building at national and local agency level.</p>
Summary of Preparatory Work by DMC and/or ESW by ADB or Others	Some preliminary feasibility studies have been conducted in these selected areas. The Government has been requested to provide all available reports, diagrams, and statistics to ADB to expedite the conduct of the PPTA.
Comparative Advantage of ADB in Proposed Project	ADB has considerable experience in flood control and drainage and irrigation rehabilitation and construction, including in similar environments such as Kazakhstan.
Rationale and Scope of attached ADTA:	Not Applicable
Development Objective (thematic priority)	Human Development
Environmental Classification:	A ^a
Social Issues:	Poverty

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, OCR = ordinary capital resources, PPTA = project/program preparatory technical assistance.

^a Category A: Projects expected to have significant adverse environmental impacts. An environmental impact assessment is required to address significant impacts.

Table A6.2 Project Selection Brief for Basic Infrastructure Development

A: Data	
Project Number:	
Country:	Azerbaijan
Sector:	Social Infrastructure
Subsector:	Water Supply and Sanitation, Urban and Rural Infrastructure
Project Division:	AEWU
Contact Person in Projects Division:	L. Sabyrova
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$23 million
Proposed Lending Modality:	ADF
PPTA:	Basic Infrastructure Development in Secondary Towns and Communities
Proposed PPTA Amount:	\$740,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Predesign Phase:	III Qtr 2001
Start Design Phase:	I/II Qtr 2002
Approval Year According to CSP:	2002
Proposed Executing Agency:	State Committee on Architecture and Construction (for basic infrastructure components);
Contact Person in Proposed Executing Agency:	Mr. S. Hasanov, Chairman
B: Description	
Brief Rationale of Project:	<p>Since independence in 1991, expenditure in basic infrastructure services such as water supply, sewerage, and sanitation has been severely cut back, resulting in deterioration in both physical assets and services. There is significant loss of water from aging and poorly maintained pipes and distribution system. As a result, many households outside of the Baku area have access to water only 2-4 hours a day. Waterborne diseases are wide spread, especially in smaller towns and rural areas with a larger share of poor people and internally displaced persons (IDPs). For some of these people, water consumption barely reaches 20-25 liters per capita per day. The activities of the international funding community have concentrated mainly in the greater Baku area (World Bank and European Bank for Reconstruction and Development), with little progress in other parts of the country.</p>

	<p>There exists an urgent need to improve basic infrastructure services including water supply and sanitation in small towns and communities in line with Government's poverty reduction strategy.</p> <p>The proposed project will improve the living and health conditions in selected urban and rural communities, in particular for the poor and IDPs, through the provision of basic infrastructure services.</p>
Summary of Preparatory Work by DMC and/or ESW by ADB or Others	The project will utilize the joint World Bank and Azerbaijan's study on water supply and sanitation sector, and experience of Germany's Kreditanstalt fur Wiederaufbau in Imishli town.
Comparative Advantage of ADB in Proposed Project:	The proposed project will focus on selected urban and rural communities with a large share of poor population and IDPs, where there exists a gap for much needed financial assistance. ADB has accumulated experience in similar projects in the transition Central Asian countries such as Kyrgyz Republic, Kazakhstan, and Uzbekistan.
Rationale and Scope of attached ADTA:	Not applicable
Development Objective (thematic priority)	Human Development
Environmental Classification:	B ^a
Social Issues:	Poverty and resettlement issues

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, IDPs = internally displaced persons, NGO = non-governmental organization, PPTA = project/program preparatory technical assistance.

^a Category B: Projects judged to have some adverse environmental impacts, but of lesser degree and/or significance than those for category A projects. An initial environmental examination (IEE) is required to determine whether or not significant environmental impacts warranting an environmental impact assessment (EIA) are likely. If an EIA is not needed, the IEE is regarded as the final environmental assessment report.

Table A6.3 Project Selection Brief for Samur Apsheron Water Supply and Irrigation Project

A: Data	
Project Number:	
Country:	Azerbaijan
Sector:	Water Resources
Subsector:	Water Supply, Irrigation
Project Division:	AEFN
Contact Person in Projects Division:	TBD
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$80 million in two phases
Proposed Lending Modality:	OCR/ADF
PPTA:	Yes
Proposed PPTA Amount:	\$800,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Pre-design Phase:	I Qtr 2002
Start Design Phase:	III Qtr 2002
Approval Year According to CSP Update:	2003 (First Stage)/2004 (Second Stage)
Proposed Executing Agency:	State Committee for Water Resources Management
Contact Person in Proposed Executing Agency:	Mr. A. Ahmadzada, Chairman
B: Description	
Brief Rationale of Project:	<p>The Samur Apsheron canal system is in northeastern Azerbaijan. The system is a major source of water for Baku and for irrigation in northeast Azerbaijan. The system has deteriorated and threatens the continued supply of drinking water to Baku and irrigation water to farmers.</p> <p>Currently the Islamic Development Bank and World Bank are financing some sections of this canal. The Government has requested ADB to finance a section, estimated to cost \$80.0 million. It is proposed that the project be done in two phases.</p>
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	The World Bank is currently reviewing the technical, environmental, social, and economic viability of the expansion of the system. The study is expected to be completed by the end of 2002.
Comparative Advantage of ADB in Proposed Project:	ADB has extensive experience in financing and implementing water resources projects in its member countries, including those in Central Asia. ADB involvement in the Samur-Apsheron System will deepen the financial resources and advisory support needed to rehabilitate the system.

Rationale and Scope of attached ADTA:	Not applicable
Development Objective (thematic priority)	Human Development
Environmental Classification:	A ^a
Social Issues	Poverty

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, OCR = ordinary capital resources, PPTA = project/program preparatory technical assistance, TBD = to be determined.

^a Category A: Projects expected to have significant adverse environmental impacts. An environmental impact assessment is required to address significant impacts.

Table A6.4: Project Selection Brief for Central Corridor Roads Improvement

A. Data	
Project Number:	
Country:	Azerbaijan
Sector:	Transport, Roads
Project Division:	IETC
Contact Person in Projects Division:	TBD
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$18 million
Proposed Lending Modality:	OCR
PPTA:	Central Road Corridor Improvement
Proposed PPTA Amount:	\$600,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Pre-design Phase:	2002
Start Design Phase:	2002
Approval Year According to CSP:	2003
Proposed Executing Agency:	Azerbaijan State Road Concern (Azeravtoyol)
Contact Person in Proposed Executing Agency:	Mr. G. Nizami, Vice President
B: Description	
Brief Rationale of Project:	The project will contribute to the expansion of trade and transport services by improving the central corridor highway between Baku and Tbilisi, Georgia, which is currently in dilapidated condition. The project will rehabilitate an existing highway segment, and provide connector roads in the adjoining districts.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	Several segments of the central corridor road have already been financed by other agencies, including Islamic Development Bank and Kuwait Fund. Other agencies, including World Bank and European Bank for Reconstruction and Development, are considering providing assistance for segments of the road. Some of the required ESW work has been undertaken by World Bank, with remaining policy issues including (i) operationalization of the new Ministry of Transport, and (ii) improvement in the management of the road fund.

Comparative Advantage of ADB in Proposed Project:	The road sector is a focus of ADB's Central Asia strategy. ADB has gained experience from several road projects in Central Asia, including regional road projects.
Rationale and Scope of ADTA:	Not applicable
Development Objective (thematic priority)	Good Governance
Environmental Classification Project:	A ^a
Social Issues:	Participation of local residents in design of district connector roads.

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, OCR = ordinary capital resources, PPTA = project/program preparatory technical assistance, TBD = to be determined.

^a Category A: Projects expected to have significant adverse environmental impacts. An environmental impact assessment is required to address significant impacts.

Table A6.5: Project Selection Brief for Southern Azerbaijan Roads Improvement

A. Data	
Project Number:	
Country:	Azerbaijan
Sector:	Transport, Roads
Project Division:	IETC
Contact Person in Projects Division:	TBD
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$20 million
Proposed Lending Modality:	OCR
PPTA:	Southern Azerbaijan Roads Improvement
Proposed PPTA Amount:	\$700,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Pre-design Phase:	2003
Start Design Phase:	2003
Approval Year According to CSP:	2004
Proposed Executing Agency:	Azerbaijan State Road Concern (Azeravtoyol)
Contact Person in Proposed Executing Agency:	Mr. G. Nizami, Vice President
B. Description	
Brief Rationale of Project:	The project will contribute to the expansion of trade and transport services by improving the southern corridor highway between Baku and Astana, on the border with Iran. The project will rehabilitate an existing highway segment and provide connector roads in the adjoining districts.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	Some of the required ESW work has been undertaken by World Bank.
Comparative Advantage of ADB in Proposed Project:	The road sector is focus of ADB's Central Asia strategy. ADB has experience with several road projects in Central Asia, including regional road projects.
Rationale and Scope of attached ADTA:	Not applicable
Development Objective (thematic priority)	Good Governance
Environmental Classification:	A ^a
Social Issues:	Participation of local residents in design of district connector roads.

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, OCR = ordinary capital resources, PPTA = project/program preparatory technical assistance, TBD = to be determined.

^a Category A: Projects expected to have significant adverse environmental impacts. An environmental impact assessment is required to address significant impacts.

Table A6.6: Project Selection Brief for New Settlements Basic Infrastructure

A. Data	
Project Number:	
Country:	Azerbaijan
Sector:	Social Infrastructure
Subsector:	Water supply, sanitation
Project Division:	AEWU
Contact Person in Projects Division:	TBD
Programs Division:	PE2
Tentative Loan Amount According to CSP:	\$25 million
Proposed Lending Modality:	ADF
PPTA:	New Settlements Basic Infrastructure Development
Proposed PPTA Amount:	\$850,000
Attached ADTA:	
Proposed ADTA Amount:	
Start Predesign Phase:	II/III Qtr 2003
Start Design Phase:	I/II Qtr 2004
Approval Year According to CSP:	2004 or 2005
Proposed Executing Agency:	TBD
Contact Person in Proposed Executing Agency:	TBD
B: Description	
Brief Rationale of Project:	<p>A decade after the beginning of the conflict over Nagorno-Karabakh, approximately 900,000 refugees and internally displaced people (IDPs) still live in temporary shelters where living conditions are deplorable. They lack safe (and sometimes, any) drinking water and sewage, food security, basic education and health services, and employment opportunities. If not properly addressed, this situation will lead to increased poverty and limited economic activity of the current IDPs and their future generations.</p> <p>This project will establish several new permanent settlements in the liberated areas of Fizuli and Aghdam for about 8,000-9,000 IDPs currently living in the camps of Belyasovar, Saatly, Imishli, and others. The new settlements will require construction of new economic and social infrastructure (public schools, housing, sanitation facilities, etc.), or extension of existing infrastructure facilities (water supply, local roads) from nearby villages. Each settlement is estimated to host approximately 200 families, or 1,000 people.</p>

	This project is a logical output of the overall ADB strategy toward Azerbaijan in poverty reduction efforts and human development. Participation of IDPs and local communities will be crucial in ensuring success of the project.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	The scope of the project will depend on the progress achieved and experience accumulated during the preparatory phase and implementation of the basic infrastructure development project to be commenced in 2002. The latter project will develop basic infrastructure services in one or two new settlements in Fizuli district on a pilot basis. Experience of other international agencies in rehabilitation and reconstruction efforts in the new liberated areas will also be used.
Comparative Advantage of ADB in Proposed Project	ADB accumulated significant experience in community-based economic and social infrastructure projects in DMCs, as well as hands-on knowledge of challenges facing transition economies.
Rationale and Scope of attached ADTA:	Not applicable
Development Objective (thematic priority)	Human Development
Environmental Classification:	B ^a
Social Issues	Participation of IDPs and local communities and resettlement are the main issues.

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, CSP = country strategy and program, DMC = developing member country, ESW = Economic and Sector Work, PPTA = project/program preparatory technical assistance, TBD = to be determined.

^a Category B: Projects judged to have some adverse environmental impacts, but of lesser degree and/or significance than those for category A projects. An initial environmental examination (IEE) is required to determine whether or not significant environmental impacts warranting an environmental impact assessment (EIA) are likely. If an EIA is not needed, the IEE is regarded as the final environmental assessment report.

Table A6.7: TA Concept Paper for Poverty Reduction Strategy Support

A. Profile	
Department, Division, RM, Officer Concerned:	PED, PE2, M. Gatti
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to follow (if PPTA):	
Country, Region (as applicable):	Azerbaijan
Sector/subsector:	Multisector
Poverty Classification and Thematic Priorities: ¹	Human Development
Program Year: ²	Standby 2001, Firm 2002
Expected Approval Date (mo/yr):	October 2001
Estimated Completion Date:	April 2002
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	Reducing poverty remains one of the top priorities for Azerbaijan. About 60% of population lived below the national poverty line in 1995, and the situation has remained without improvement despite strong GDP growth during the past three years. For effective impact of poverty reduction, the Government prepared an interim poverty reduction strategy paper (IPRSP) in May 2001. The IPRSP provides a policy and institutional framework for poverty reduction in the short-to-medium term in Azerbaijan. To implement the IPRSP and develop a full PRSP, a steering committee has been established, which is to be supported by sector working groups covering major social and economic sectors in the countries. However, the IPRSP has not provided policy orientation for poverty reduction for key social and economic sectors. The organizational support to coordinate policy implementation among the envisaged sector groups and the monitoring mechanism is yet to be developed. In carrying out this work, efforts will be made to broaden the participatory process and to engage in a genuine two-way dialogue with civil society, the private sector, and donors.
2. Relation to Strategic Objectives (How the TA addresses the following) <ul style="list-style-type: none"> • poverty reduction, thematic priorities • country strategy (where applicable) • regional cooperation 	The project is in accordance with ADB's and the Government's priority of fighting poverty in Azerbaijan.

¹ Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for ADB operations (for RETAs)

² Year of inclusion in CSP for transition period.

3. Scope (specific major components, e.g., capacity building)	The TA will include (i) assistance to the Government to establish a coordination unit; (ii) support for sector working groups in agriculture and rural development, infrastructure, and refugee and IDP assistance; and (iii) support for establishing the monitoring mechanism for progress made for poverty reduction.
4. Expected Outcome and Monitorable Indicators	The ADTA will result in a final PRSP incorporating a more focused policy orientation for poverty reduction in key social and economic sectors and employing a broad participatory approach. Monitorable indicators include outputs of sector working groups (policy notes, implementation plans, etc.) and number and frequency of participatory seminars and meetings with civil society and other stakeholders.
5. Previous TA(s) on the Same Theme, in the sector, country, region (last five years) <ul style="list-style-type: none"> • name, amount, status • assessment of outcome 	An ADTA entitled Capacity Building for Poverty Data Analysis in the State Committee for Statistics was approved on 6 June 2001 in the amount of \$150,000. The ADTA has just started implementation.
6. Executing, Implementing, Counterpart Agencies (for RETAs as applicable)	Ministry of Economic Development
7. Cost and Financing Plan <ul style="list-style-type: none"> (i) ADB Financing (JSF, TASF) (ii) Sources other than JSF/TASF 	Proposed for financing by the Italian government for \$200,000
8. Country, RETA IPF for relevant year	\$2.5 million

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund.

Table A6.8: TA Concept Paper for Capacity Building for Ministry of Economic Development

A. Profile	
Department, Division, RM, Officer Concerned:	TBD
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to Follow (if PPTA):	
Country, Region (as applicable):	Azerbaijan
Sector/Subsector:	Multisector
Poverty Classification and Thematic Priorities: ¹	Good Governance , Private Sector Development
Program Year: ²	2002
Expected Approval Date (mo/yr):	March 2002
Estimated Completion Date:	December 2002
B. Concept and Design	
9. Rationale (specific problem/issues to be addressed in TA)	As a result of the latest government restructuring, the Government established a new Ministry of Economic Development (MOED) to take responsibility for strategic formulation of economic development policy including privatization, private sector (including small and medium enterprises) development, trade, and foreign direct investment in non-oil sectors. MOED is not fully operational, partly because it has little experiences in establishing effective organizational structure to support the envisaged activities under its mandates. MOED staff have little knowledge about how to engage in economic policy formulation in the context of a market economy. There is a great need to reinforce the process of reforms and develop MOED's capacity for making and implementing economic policies.
10. Relation to Strategic Objectives (How the TA addresses the following) <ul style="list-style-type: none"> poverty reduction/thematic priorities country strategy (where applicable) regional cooperation 	The ADTA is in accordance with ADB's country strategy on good governance and institutional strengthening.
11. Scope (specific major components, e.g., capacity building)	The TA will include (i) assistance to establish a development policy group (DPG) to provide strategic policy advice to high-level officials of MOED in key policy areas; (ii) provision of training programs to DPG staff to enhance their skills of policy analysis; and (iii) support for improving the economic information base for economic policy making within MOED.

¹ Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for ADB operations (for RETAs)

² Year of inclusion in CSP for transition period.

<p>12. Expected Outcome and Monitorable Indicators</p>	<p>The project is expected to build up the capacity of MOED to fulfil its new mandate of making and implementing economic policies. The indicators include:</p> <ul style="list-style-type: none"> • well-functioning development policy group able to provide high-level policy advice to MOED officials; • improved capacities and skills of MOED staff; and • well-developed economic information base which is widely used by MOED policymakers.
<p>13. Previous TA(s) on the Same Theme, in the sector, country, region (last five years)</p> <ul style="list-style-type: none"> • name, amount, status • assessment of outcome 	<p>This ADTA will follow on previous capacity building efforts in the Ministry of Finance, State Committee for Statistics and MOED:</p> <ul style="list-style-type: none"> • TA 3661-AZE: Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance, for \$760,000, approved on 31 May 2001, under implementation; • TA 3664-AZE: Capacity Building for Poverty Data Analysis, for \$150,000, approved on 6 June 2001, under implementation; and • Proposed ADTA for Poverty Reduction Strategy Support, for \$200,000, scheduled for approval in late 2001.
<p>14. Executing, Implementing, Counterpart agencies (for RETAs as applicable)</p>	<p>Ministry of Economic Development</p>
<p>15. Cost and Financing Plan</p> <p>(i) ADB Financing (JSF, TASF)</p> <p>(ii) Sources other than JSF/TASF</p>	<p>Total Cost: \$600,000 ADB Financing (TASF): \$450,000</p>
<p>16. Country, RETA IPF for relevant year</p>	<p>\$2.5 million</p>

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy program, DPG = development policy group, JSF = Japan Special Fund, MOED = Ministry of Economic Development, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund.

Table A6.9: TA Concept Paper for Capacity Building for Key Sectoral Agencies

A. Profile	
Department, Division, RM, Officer Concerned:	TBD
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to follow (if PPTA):	
Country/Region (as applicable):	Azerbaijan
Sector/Subsector:	Multisector
Poverty Classification and Thematic Priorities: ¹	Good Governance, Human Development
Program Year: ²	2002
Expected Approval Date (mo/yr):	February 2002
Estimated Completion Date:	December 2002
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	Appropriate and effective institutions are fundamental to the provision of appropriate levels of support to the emerging market economy. The level of institutional change and capacity building required are substantial and the Government in cooperation with external agencies will need to devote substantial effort and resources to this task.
2. Relation to Strategic Objectives (How the TA addresses the following) <ul style="list-style-type: none"> • poverty reduction/thematic priorities • country strategy (where applicable) • regional cooperation 	The project is in accordance with ADB's priority of good governance and institutional strengthening in Azerbaijan.
3. Scope (specific major components, e. g., capacity building.)	The analysis will examine the strengths and weakness of each institution and develop a framework for the future development of the institution to meet the needs of supporting a market-based system. This initial study would also identify key strategic institutional development activities for future financing by ADB
4. Expected Outcome and Monitorable Indicators	The project is expected to build up the capacities of key sectoral agencies with which ADB will work closely. The indicators include: <ul style="list-style-type: none"> • strength-weakness-opportunities threats analyses of each of the sectoral agencies; • formulation of a conceptual framework for future development of each agency; • study of key strategic institutional development activities.

¹ Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for ADB operations (for RETAs)

² Year of inclusion in CSP for transition period.

<p>5. Previous TA(s) on the Same Theme, in the sector, country, region (last five years)</p> <ul style="list-style-type: none"> • name, amount, status • assessment of outcome 	<p>This ADTA will follow on previous PPTAs:</p> <ul style="list-style-type: none"> • Proposed PPTA for Flood Protection and Irrigation (2001) • Proposed PPTA for Basic Infrastructure Development (2001) • Proposed PPTA for Central Corridor Roads Improvement (2002)
<p>6. Executing, Implementing, Counterpart agencies (for RETAs as applicable)</p>	<p>State Committee for Water Resources Management, State Committee for Architecture and Construction, Ministry of Transportation (when constituted)</p>
<p>7. Cost and Financing Plan</p> <p>(i) ADB Financing (JSF, TASF) (ii) Sources other than JSF/TASF</p>	<p>Total Cost: \$600,000 ADB Financing (TASF): \$450,000</p>
<p>8. Country, RETA IPF for relevant year</p>	<p>\$ 2.5 million</p>

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund.

Table A6.10: TA Concept Paper for Strengthening Early Childhood Development

A. Profile	
Department, Division, RM, Officer Concerned:	AED, AEEH
Type of TA (ADTA, PPTA, RETA):	PPTA
Name of Loan Project to follow (if PPTA):	Strengthening Early Childhood Development
Country, Region (as applicable):	Azerbaijan
Sector, subsector:	Health, Early Childhood Development
Poverty Classification and Thematic Priorities: ¹	Poverty Intervention, Human Development, Gender and Development
Program Year: ²	2004
Expected Approval Date (mo/yr):	2004
Estimated Completion Date:	2004
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	<p>The conflict with Armenia and the process of transition from centrally-planned to a market economy has severely deteriorated the health situation of population, especially among the most vulnerable groups, including the IDPs, unemployed, women and children.</p> <p>The proposed project is aimed at enhancing human development by providing services and supporting activities that ensure survival and promote development of Azeri children, particularly those who are most vulnerable and disadvantaged, including IDP children. This will be accomplished through development, provision, and promotion of an integrated set of early childhood development service delivery packages to address health, nutrition, cognitive and psychosocial development needs of children under six at various stages of growth and development, particularly those in IDP camps and settlements.</p> <p>The participating localities will be selected based on a national assessment of administrative districts according to at-risk children in need of ECD services, and agreed upon criteria (infant and child mortality rates, protein-energy malnutrition, high dropout rates, etc.)</p>

¹ Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for ADB operations (for RETAs)

² Year of inclusion in CSP for transition period.

<p>2. Relation to Strategic Objectives (How the TA addresses the following)</p> <ul style="list-style-type: none"> • poverty reduction, thematic priorities • country strategy (where applicable) • regional cooperation 	<p>The project is in accordance with ADB's focus on enhancing human development in order to achieve an improvement in people's living conditions.</p>
<p>3. Scope (specific major components, e.g., capacity building)</p>	<p>The proposed PPTA will include components to prepare an investment project. In addition, the project will include components to investigate the needed technical and financial support to enable local government units to deliver more and better services for children under six years old.</p>
<p>4. Expected Outcome and Monitorable Indicators</p>	<p>The proposed PPTA will prepare an investment project aimed at reducing infant and child mortality, malnutrition, and primary school dropout rates. In addition, the project will contribute to the improvement in the health, welfare, and cognitive development of preschoolers.</p>
<p>5. Previous TA(s) on the Same Theme, in the sector, country, region (last five years)</p> <ul style="list-style-type: none"> • name, amount, status • assessment of outcome 	<p>The proposed project will be ADB's first assistance in the health sector. It will build on efforts of other donors in the sector, including World Bank and United Nations Fund for Children.</p>
<p>6. Executing, Implementing, Counterpart Agencies (for RETAs as applicable)</p>	<p>Ministry of Health</p>
<p>7. Cost and Financing Plan</p> <p>(i) ADB Financing (JSF, TASF)</p> <p>(ii) Sources other than JSF/TASF</p>	<p>Total cost = \$750,000 ADB Financing (JSF) = \$600,000</p>
<p>8. Country, RETA IPF for relevant year</p>	<p>\$2.5 million</p>

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, TA = technical assistance, TASF = Technical Assistance Special Fund.

Table A6.11: TA Concept Paper for Small and Medium Enterprise Development

A. Profile	
Department, Division, RM, Officer Concerned:	IED, IEFI
Type of TA (ADTA, PPTA, RETA):	PPTA
Name of Loan Project to follow (if PPTA):	Small and Medium Enterprise Development
Country, Region (as applicable):	Azerbaijan
Sector, subsector:	Industry/Finance
Poverty Classification and Thematic Priorities: ¹	Poverty Intervention, Economic Growth, Private Sector Development
Program Year: ²	2004
Expected Approval Date (mo/yr):	2004
Estimated Completion Date:	2004
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	<p>The development of small and medium enterprises (SMEs) is fundamentally important for the future development of Azerbaijan. In particular, SME development is a crucial part of the national strategy to achieve balanced sector development.</p> <p>The Azeri Government has prepared a state program for the development of SMEs in Azerbaijan (2001-2003). In addition, SME development is supported by a well-developed legislative framework established in recent years. Major pieces of legislation enacted recently include laws on entrepreneurship, enterprises, joint-stock companies, unfair competition, and state support to small enterprises. Despite these accomplishments, several problems hinder the development of SMEs, including: (i) national program is too ambiguous, (ii) ineffective legal enforcement, (iii) lack of coordination among the various funding agencies involved in the sector, (iv) unclear investment and financing mechanisms, and (v) need for business service and management skills development.</p>
2. Relation to Strategic Objectives (How the TA addresses the following) <ul style="list-style-type: none"> • poverty reduction, thematic priorities • country strategy (where applicable) • regional cooperation 	The project is in accordance with ADB's objective of promoting sustainable economic growth in the non-oil industries. It is also in line with the thematic priority of private sector development.

¹ Economic growth, human development, gender and development, good governance, environmental protection, private sector development, regional cooperation, and support for ADB operations (for RETAs)

² Year of inclusion in CSP for transition period.

3. Scope (specific major components, e.g., capacity building)	The proposed PPTA will assess the technical, economic and financial viability of an investment project for SME Development. The PPTA is also likely to have components to address the following issues: (i) legal enforcement, (ii) potential investment and financing mechanisms, and (iii) capacity building.
4. Expected Outcome and Monitorable Indicators	The proposed PPTA will prepare a investment project aimed at promoting the development of SMEs. Monitorable indicators of the ensuing investment loan could include employment levels, number of business start-ups, and enforcement of business-related rules and legislation.
5. Previous TA(s) on the Same Theme, in the sector, country, region (last five years) <ul style="list-style-type: none"> • name, amount, status • assessment of outcome 	The proposed project will be ADB's third assistance to the Ministry of Economic Development. It will follow on the efforts of the two previous TAs: <ul style="list-style-type: none"> • ADTA for Poverty Reduction Strategy Support • ADTA for Capacity Building for Ministry of Economic Development
6. Executing, Implementing, Counterpart Agencies (for RETAs as applicable)	Ministry of Economic Development
7. Cost and Financing Plan <ul style="list-style-type: none"> (i) ADB Financing (JSF, TASF) (ii) Sources other than JSF/TASF 	Total cost = \$750,000 ADB Financing = \$600,000
8. Country, RETA IPF for relevant year	\$2.5 million

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, SME = small and medium enterprise, TA = technical assistance, TASF = Technical Assistance Special Fund.