

ASIAN DEVELOPMENT BANK

**COUNTRY STRATEGY AND PROGRAM UPDATE
2005–2006**

REPUBLIC OF AZERBAIJAN

July 2004

CURRENCY EQUIVALENTS

(as of 14 June 2004)

Currency Unit	–	manat/s (AZM)
AZM1.00	=	\$0.000204
\$1.00	=	AZM4,909

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CSP	–	country strategy and program
CSPU	–	country strategy and program update
FDI	–	foreign direct investment
GDP	–	gross domestic product
IDP	–	internally displaced person
IMF	–	International Monetary Fund
IOS	–	interim operational strategy
JFPR	–	Japan Fund for Poverty Reduction
OCR	–	ordinary capital resources
SPPRED	–	State Programme on Poverty Reduction and Economic Development
TA	–	technical assistance
UNDP	–	United Nations Development Programme
UNICEF	–	United Nations Children's Fund

NOTES

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

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I. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political Developments

1. The political situation in Azerbaijan has generally been stable. Presidential elections were held in October 2003. According to official results, Mr. Ilham Aliyev, son of former President Heydar Aliyev, won a landslide victory in the election, defeating seven rival candidates. In the immediate aftermath of the elections, the opposition refused to accept these results and clashes took place between police and opposition supporters. However, since then, there have been no further recurrences of violence and the situation is considered stable. Mr. Ilham Aliyev pledged to continue his father's policies and reappointed most senior government officials to their positions. Mr. Heydar Aliyev died in December 2003.

2. Azerbaijan and Armenia have recently intensified their efforts to find a peaceful solution to their territorial dispute over Nagorno-Karabakh. A series of meetings between the presidents and the ministers of foreign affairs of the two countries have taken place since December 2003, which represents some progress in this area. The Minsk Group of the Organization for Security and Co-operation in Europe has been mediating the negotiations. Progress has also been made in resolving another international dispute involving Azerbaijan—namely, the disagreement over the division of the Caspian Sea. At a 2-day meeting in Baku in March 2004, the working group of deputy foreign ministers of the five littoral states agreed on several more articles of a draft convention on the legal status of the sea. In parallel, Azerbaijan and Turkmenistan resumed bilateral talks on delineating their sections of the seabed, which were suspended about 2 years ago.¹

B. Economic Assessment and Outlook

3. Azerbaijan's macroeconomic performance remained strong in 2003 and in the first quarter of 2004 (Appendix 1, Table A1.2). Following growth of 11.2% in 2003, real gross domestic product (GDP) grew by 10.6% in January–March 2004, compared with the same period a year earlier. Large inflows of foreign direct investment (FDI) into the oil sector,² which reached \$2.8 billion (39.4% of GDP) in 2003, remained the engine of growth. The full development of the Azeri-Chirag-Gunashli oil fields and the construction of the associated Baku-Tbilisi-Ceyhan oil pipeline proceeded apace, despite delayed approval of loans by international creditors. In addition, two new large-scale gas projects—namely, the development of the Shah-Deniz gas field in the Caspian Sea and the construction of the South Caucasus Pipeline, which will deliver gas from Shah-Deniz to Turkey—were launched in early 2003.

4. Notwithstanding large hydrocarbon-related foreign exchange inflows, price stability was maintained and real exchange rate appreciation was avoided. Inflation remained at low single-digit levels, with the consumer price index rising by 2.2% in 2003 and by 3.0% in the 12-month period ended in March 2004. While the nominal exchange rate of the national currency (the manat) against the dollar stayed virtually unchanged in 2003, the real effective exchange rate depreciated by an estimated 13.1%, giving domestic producers a competitive edge.

¹ Azerbaijan, Kazakhstan, and the Russian Federation have already concluded bilateral agreements to divide their parts of the seabed into national zones based on the medium-line principle.

² The term “oil sector” refers to the oil and gas sector.

5. The Government continued pursuing sound macroeconomic policies. In spite of a reduction in a number of taxes, a rise in public sector salaries, and an increase in capital expenditure, the consolidated budget, including the State Oil Fund of Azerbaijan Republic (SOFAZ), recorded a surplus of 0.2% of GDP in 2003. Moreover, part of the revenue windfall arising from higher than anticipated world oil prices was saved as a cushion against possible future declines in oil prices and, consequently, oil-related budgetary revenues. Although broad money continued to grow fast, by 29.8% in 2003 and by 4.9% in the first 3 months of 2004, this reflected the increase in money demand, resulting from rapid GDP growth and continuing remonetization of the economy.

6. The current account deficit widened to 28.3% of GDP in 2003, as imports of capital goods and services for the oil sector increased sharply. The deficit was fully financed by inflows of FDI and other capital inflows such that the overall balance of payments recorded a surplus of \$236 million. Consequently, gross official reserves, including SOFAZ assets, increased from \$1.4 billion at end-2002 to \$1.6 billion at end-2003. The external debt burden remained moderate, with the stock of public and publicly guaranteed debt standing at \$1.6 billion (22.0% of GDP) at end-2003 and the ratio of debt servicing to exports of goods and non-factor services amounting to 5.0% in 2003.

7. Progress in structural reform was mixed. While marked headway was made in some areas, such as enhancing transparency and accountability of public finance management and making implicit energy subsidies explicit, progress was limited in other areas, such as privatization of state-owned enterprises, enhancing competition, and demonopolization of the economy. Following his election victory in October 2003, President Ilham Aliyev issued decrees calling for acceleration of structural reform. In February 2004, he approved the State Programme on Socio-Economic Development of the Regions for 2004–2008, which envisages a broad range of policy measures and investment projects aimed at achieving more balanced regional development.

8. The medium-term outlook for Azerbaijan is positive. GDP growth is projected to remain buoyant at least until the end of this decade, driven by large FDI inflows into the oil sector in 2004 and rapid expansion in oil and gas production and exports thereafter. This oil boom, however, represents not only an opportunity, but also a challenge for Azerbaijan. To avoid the “resource curse” experienced by many other oil-rich countries, Azerbaijan needs to (i) maintain macroeconomic stability in the face of large foreign exchange flows related to the exploitation of hydrocarbon resources; (ii) allocate the oil windfall optimally over time and use it efficiently to benefit all segments of the population, especially the poor; and (iii) promote the development of the non-oil sector to create job opportunities and achieve balanced and sustainable growth.

C. Implications for Country Strategy and Program

9. The Country Strategy and Program Update (CSPU) (2004–2006) was based on the interim operational strategy (IOS)³ and continues to provide solid justification for Asian Development Bank (ADB) assistance in the four strategically selected areas or sectors, i.e., assistance for internally displaced persons (IDPs); agriculture and rural development; social infrastructure (primarily water supply, sanitation, and child development); and roads. These sectors or areas are assumed to continue to be the focus of ADB operations until the new country strategy is prepared.

³ ADB. 2000. *Economic Report and Interim Operational Strategy for Azerbaijan*. Manila.

10. In 2005, a full country strategy and program (CSP) will be prepared in dialogue with the Government. The CSP will review the progress made toward achieving the strategic direction of the IOS and, if necessary, propose new strategic directions. The Government's work over the last year to implement the national poverty strategy (para. 12) and the new directions provided by the Government's recently approved State Programme on Socio-Economic Development of the Regions will be taken fully into account in preparing the CSP.

II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress on the Poverty Reduction

11. The main challenge for the Government in the new millennium remains how to address the serious poverty situation in the country. According to revised data from the 2002 Household Budget Survey, 46.7% of the Azerbaijani population lived below the national poverty line and 10% were living in extreme poverty in 2002.⁴ Although the progress in achieving the Millennium Development Goals (MDGs) is hampered by inconsistent data, general indications are that there has been an improvement over the last year in several areas. MDG, social, and environmental indicators are given in Appendix 1, Tables A1.1, A1.3, and A1.4, respectively.

12. Over the past year, the Government has been implementing its new national poverty reduction strategy, the State Programme on Poverty Reduction and Economic Development (SPPRED).⁵ On 26 May 2004, a high-level national poverty conference was held in Baku to review the progress achieved during the first year of implementation and seek guidance for the second year of the SPPRED. A progress report⁶ prepared for the conference was informative, transparent, and well received by the international funding community. The initial SPPRED implementation has generally fulfilled most expectations and, moreover, has provided an excellent framework for dialogue within the Government and between the Government and the funding agencies on issues relating to poverty reduction. The SPPRED's main tasks for its second year of implementation are to (i) improve prioritization and sequencing of the actions in the SPPRED policy matrix, (ii) agree on realistic poverty targets, and (iii) commence monitoring of the agreed targets. ADB will continue to assist in the implementation of the SPPRED through capacity building of the SPPRED Secretariat.⁷ Given the good quality of the progress report, it will serve as the poverty assessment in preparation of the CSP.

B. Progress in the Country Strategy and Program Focus Areas

13. To date, ADB has approved one loan, 11 technical assistance (TA) projects, and two Japan Fund for Poverty Reduction (JFPR) grants for Azerbaijan. Given the early stage of ADB's

⁴ State Statistical Committee of Azerbaijan Republic. 2004. *Main Results of Household Budget Survey in 2003*. Baku, Azerbaijan.

⁵ Azerbaijan Republic. 2003. *State Programme on Poverty Reduction and Economic Development: 2003–2005*. Baku, Azerbaijan.

⁶ Azerbaijan Republic. 2004. *State Programme on Poverty Reduction and Economic Development: Annual Report, 2003*. Baku, Azerbaijan.

⁷ ADB. 2003. *Technical Assistance to the Republic of Azerbaijan for Capacity Building for Medium-Term Poverty Reduction Strategy Implementation*. Manila (TA 4087-AZE, for \$650,000, approved on 11 March 2003). Other TAs which have assisted with the SPPRED formulation process include: ADB. 2001. *Technical Assistance to the Republic of Azerbaijan for Capacity Building for Poverty Data Analysis*, Manila (TA 3664-AZE for \$150,000, approved on 5 June 2001) and ADB. 2001. *Technical Assistance to the Republic of Azerbaijan for Preparation of the Medium-Term National Poverty Reduction Strategy*. Manila (TA 3788-AZE for \$150,000, approved on 7 December 2001).

public sector lending operations in Azerbaijan, there has been somewhat less progress in the pursuit of strategic sector objectives than had been envisaged in the IOS. Despite this, ADB has maintained unchanged its focus on assistance for IDPs and three sector priorities: agriculture and rural development, social infrastructure, and transport.

1. Assistance for Internally Displaced Persons

14. The IDP population remains one of the most poor and disadvantaged groups in the country and, as such, it is identified as an important vulnerable group of the population in the SPPRED. Overall, about 63% of the displaced population live below the poverty line, compared with 47% of the general population. The total number of IDPs and refugees is estimated at around 1 million, of whom about 575,000 are IDPs. It is estimated that about 150,000 of the IDPs still live in public buildings, tented camps, dugouts, unfinished buildings, and railway wagons. IDPs continue to suffer from lack of adequate water supply and sanitation, as well as health and education services. Malnutrition is very common among the IDP population (26% compared with 10% nationwide), as is infant mortality. Unemployment among IDPs is a serious problem, as it is estimated that 47% of refugees and IDPs were unemployed in 2002. According to the World Food Program, the share of IDPs unable to meet their basic food and non-food requirements increased by 16% from 1998 to 2001.

15. The SPPRED identifies several directions for assistance, including the rehabilitation of the non-occupied areas near the ceasefire line, provision of improved housing for 5,000 families, upgrading infrastructure in IDP camps, addressing employment issues for IDPs, education and health, and development of a new repatriation plan. Since 2001, the Government has been addressing the needs of the IDP population more actively than in the 1990s. The adoption of several presidential decrees in 2001 and 2002 regarding the situation of IDPs, together with the allocation of large proceeds from the State Oil Fund (SOF), has led to an improvement in the socioeconomic conditions of IDPs. ADB is assisting, through funding of a pilot project in Mingechevir city, the transfer of 412 households to a new resettlement area and the rehabilitation of public schools occupied by these IDPs.⁸ A second project to provide basic social infrastructure is programmed for 2005 and may include one or more of the following activities: (i) continued support for the improvement of IDPs' housing conditions and the construction of new settlements, (ii) improvement of education opportunities of IDP children and young adults, and (iii) support for immediate livelihood and income-generating opportunities

2. Sector Priorities

16. Overall, ADB has made moderate progress during the last year in meeting the sector objectives of the existing IOS. The greatest progress has been seen in the agriculture and rural development sector, where ADB has provided its first loan (for flood mitigation) and has expedited assistance for rural finance development.

a. Agriculture and Rural Development

17. **Flood Mitigation.** ADB's involvement in flood mitigation is an immediate response to assist the Government to address serious, recurring floods in Azerbaijan. Floods have caused widespread loss of life and property and reduced income-earning opportunities. Moreover,

⁸ ADB. 2002. *Technical Assistance to the Republic of Azerbaijan for Integration of Internally Displaced Persons in Mingechevir Rayon*. Manila. (JFPR 9013-AZE for \$2.5 million, approved on 30 January 2002) The new resettlement area was inaugurated on 8 June 2004.

floods have worsened the living standards of the poor, negated progress in reducing poverty, and often cause the non-poor to fall into poverty. Without protection from floodwaters, the whole rural asset base has been at risk in certain areas. To address this urgent need, ADB provided a loan for flood mitigation in late 2003.⁹ The loan addresses flooding in 12 districts in four flood-prone areas of Azerbaijan and includes both structural and nonstructural measures for flood protection. Among the nonstructural measures are: watershed management, flood forecasting and warning, flood zoning, and capacity building for flood preparedness. An associated advisory TA to establish a river basin and flood management cell within the State Amelioration and Irrigation Committee to initiate integrated river basin management has also been provided.¹⁰

18. **Micro and Rural Finance Development.** To address the problem of underdeveloped financial services, which have impeded rural development, ADB will provide support to increase bank and microfinance activities in rural areas and communities outside Baku. This assistance follows from the recent decree for the development of regions outside Baku, is listed as a specific measure for poverty alleviation in the SPRRED, and has been accorded particularly high priority by the Government.¹¹ Development of sustainable microfinance and enhancement of private sector bank services in rural areas are consistent with both the IOS and the ADB Microfinance Strategy,¹² and with the importance accorded to integrated financial sector growth. The key timing of this intervention will meet a critical juncture in agriculture and rural development in Azerbaijan.

19. At present, Azerbaijan has 41 private commercial banks and two state-owned commercial banks. With combined assets of \$1 billion (14.5% of GDP), the banking system dominates Azerbaijan's financial sector.¹³ Weaknesses in the financial system include lack of depth of both physical presence and financial services to the overall population; underdeveloped laws, corporate governance, and regulatory oversight; lack of trust in deposit-taking institutions and investment options; large nonperforming loans; and lack of service innovation to meet demand for financial services. Virtually all financial services have been focused on oil, construction, and trade in Baku. Financial services in the areas outside Baku have been nominal, and funding of agriculture and related agribusiness has been neglected.

20. Currently, financing needs in areas outside Baku are met by varying combinations of rural households' own savings, remittances from relatives in Baku and abroad, moneylenders and other informal sources, and (to a minor extent) banks. Demand information indicates that effective demand exists in 65% of the rural population for significant additional loans for small and medium enterprise development and on-farm medium- and long-term investment. A credit market of up to \$740 million annually can easily be envisaged, but this would be one that the banking industry, with \$1 billion in assets, could not service at the current time.

⁹ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Azerbaijan for Flood Mitigation*. Manila (Loan 2068-AZE, for \$22 million, approved on 19 December 2003).

¹⁰ ADB. 2002. *Technical Assistance to the Republic of Azerbaijan for Supporting River Basin and Flood Management Planning*. Manila. (TA 4301-AZE, for \$500,000, approved on 19 December 2003).

¹¹ In February 2004, the Government wrote directly to the ADB President requesting for a loan and a grant for rural finance development. The Government requested that these projects be processed on an expedited basis for approval by the end of 2004.

¹² ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*. Manila.

¹³ The remaining nonbank financial institutions consist of a government-owned agricultural lender, 11 microfinance institutions, 28 small credit unions, 30 pawnshops, 27 insurance companies, and 3 leasing companies.

21. ADB's proposed assistance would include a loan, an advisory TA, and an application for a JFPR grant. Two TA projects¹⁴ have effectively laid the groundwork for the proposed assistance by undertaking the following preparatory activities: drafting a law on microfinance institutions and amendments to existing laws and regulations governing credit unions; carrying out detailed surveys on rural and microfinance institutions, households, and beneficiaries; and convening the first national workshop on rural finance and microfinance in Azerbaijan.

b. Social Infrastructure

22. **Water Supply and Sanitation.** ADB's involvement in the water supply and sanitation sector aims to expand and upgrade infrastructure, support institutional reform for decentralized service delivery, and establish new water utilities with adequate operational and managerial capacity. To this end, ADB has provided a grant for preparing an investment project to rehabilitate water supply and sanitation services in the secondary towns of Goychay, Agdash, and Nakhchivan.¹⁵ The proposed investment project will improve the living and health conditions of people in the three towns through better access to, and safer, water supply and sanitation services. An associated advisory TA will strengthen the capacity of the Government in the efficient regulation of water supply and sanitation services, and to promote integrated water resources management.

23. **Early Childhood Development.** ADB's involvement in the early childhood development (ECD) subsector responds to the priority accorded to addressing child health and education concerns in the Government's SPPRED. The proposed ECD project will contribute to progress toward key health-related MDGs by addressing malnutrition, morbidity, and mortality issues related to ECD. ADB's project is aimed at improving the development status of children aged up to 8 years with a focus on promoting psychosocial development and mitigating micronutrient malnutrition and mortality due to common childhood illnesses.

c. Transport

24. ADB's assistance to the transport sector will focus on physical rehabilitation, institutional reform of sector institutions, and development of main regional road linkages. The geographic focus of ADB's assistance will be on areas outside Baku as a means of fostering more balanced regional development. The Government recently accorded higher priority to rehabilitation of the two main highway corridors (central and north-south), in line with the State Programme on Socio-Economic Development of the Regions for 2004-2008. ADB's projects are aimed at improving two segments of the central road corridor and one segment of the north-south road corridor. ADB's policy dialogue in the sector may include enhancing the policy-making and regulatory capacity of the transportation ministry, improving road safety, reducing vehicle emissions, and introducing private participation in road maintenance.

3. Thematic Priorities

25. The analysis provided in the CSPU (2004–2006) regarding ADB operations vis-à-vis thematic priorities remains valid and relevant. Updating is provided on a selective basis for the four areas, which will be the focus of assessments in 2004.

¹⁴ ADB. 2002. *Technical Assistance to the Republic of Azerbaijan for Microfinance Sector Development*. Manila. (TA 4093-AZE for \$400,000, approved on 11 April 2003). ADB. 2002. *Regional Technical Assistance for Rural Finance in Central Asia*, Manila. (TA6078-REG for \$600,000 approved on 18 December 2002).

¹⁵ ADB. 2001. *Technical Assistance to the Republic of Azerbaijan for Urban Water Supply and Sanitation*, Manila. (TA3774-AZE for \$740,000, approved on 15 November 2001).

a. Good Governance

26. Sound governance is critical for economic and social development. The state's role should be as a market enhancer, to improve the business and investment environment and ensure transparency and accountability of market players. In this regard, Azerbaijan needs to develop its institutional capacity to regulate a modern market economy, encourage transparency and openness in government activities, deal effectively with the tendency of private sector operators to favor insider dealings, and push forward the separation of the state's regulatory function from its commercial interests. ADB has initiated work to assist the Government in establishing an effective framework to promote competition and curb monopolistic behavior. An advisory TA has been provided to assist the Government in creating a modern competition policy framework with an effective antitrust authority.¹⁶ In 2004, ADB will also initiate preparatory work for its governance assessment, which will provide key inputs both for future policy dialogue with the Azerbaijan authorities on matters of governance and for ADB operations.

b. Private Sector Development

27. In line with the IOS strategy for assisting non-oil sector development, ADB will assist with suitable projects in the private sector. A framework agreement for private sector operations has been discussed and broadly agreed with the Government and, once this framework is signed, ADB will closely investigate possible support for private sector activities in Azerbaijan. The Government has implemented new legislation to support foreign investment and strengthened banking legislation. New accounting laws that reflect international standards are presently being reviewed by Parliament. The Government is also pursuing privatization, having successfully divested a number of electricity distribution companies using concession agreements. ADB is preparing a private sector assessment that will review the Government's policy on developing the private sector and identify areas where assistance can potentially be provided.

c. Environment Protection

28. In line with the SPPRED, and in coordination with other state stakeholders, the Ministry of Ecology and Natural Resources prepared the National Program on Environmentally Sustainable Socioeconomic Development for 2003–2010, which was approved by the President of Azerbaijan in 2003. This program calls for increased coordination of activities in environment protection areas and identifies urgent environmental problems. In 2004, ADB will undertake two activities linked to the environment: (i) an urban environmental profile to investigate the scope of needs and importance of pursuing environmental improvements in the urban environmental agenda, and (ii) a country environmental analysis to review the Government's environmental policies and recommend areas for possible ADB assistance.¹⁷

d. Gender and Development

29. In line with the SPPRED, the Government has been undertaking activities to implement its National Action Plan on Women's Issues. A gender assessment will be prepared under a

¹⁶ ADB. 2003. *Technical Assistance to the Republic of the Republic of Azerbaijan for Development of a Competition Policy Framework*. Manila. (TA4126-AZE for \$250,000 approved on 13 June 2003).

¹⁷ The second activity will be financed under ADB. 2003. *Regional Technical Assistance for Integrating Environmental Considerations into Government Policies, Plans and Programs*, Manila. (RETA6095 for \$550,000 approved on 11 March 2003).

regional TA that will review the Government's policy on gender and identify key gender issues for poverty reduction.¹⁸

C. Highlights in Coordination of External Funding

30. ADB closely coordinates its activities in Azerbaijan with other international institutions, including the World Bank, International Monetary Fund (IMF), United Nations Development Programme (UNDP), UNICEF, European Bank for Reconstruction and Development (EBRD), and the Islamic Development Bank, as well as with bilateral aid agencies with representative offices in the country (see Appendix 1, Table A1.5). Coordination with the World Bank is particularly close, as ADB has drawn on the World Bank's established presence and expertise to guide its initial activities. Several funding agencies, including EBRD, UNDP, and United States Agency for International Development (USAID), are preparing new country strategies this year, which represents a good opportunity for ADB to coordinate its activities for the preparation of the thematic or sector assessments this year and the CSP in 2005 with the work being undertaken by these other agencies.

31. In conjunction with its lending program, ADB will continue to pursue cofinancing both from official and commercial sources to address the important sector and thematic priorities for its operations in Azerbaijan. In this context, over the period 2004–2007, significant resources are expected to be mobilized from the Islamic Development Bank, as well as the Saudi Fund and the OPEC Fund for International Development. ADB will maintain its dialogue with the Government to identify appropriate financing for the projects that it supports, specifically the use of its credit-enhancement products. In terms of TAs, ADB will coordinate with funding agencies working in the same areas to coordinate the respective TA operations.

III. PORTFOLIO MANAGEMENT ISSUES

32. The Azerbaijan portfolio is quite young, with the first loan approved only in December 2003. The loan is expected to be signed in mid-2004 and become effective in the third quarter of 2004. Processing and implementation of the TA program continue to experience delays due to the Government's lack of familiarity with ADB procedures. The expected setting up of a resident mission in mid-2004 should help improve processing and implementation of projects.

IV. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

A. Lending Level Proposed

33. Azerbaijan is classified as a B1 country, which makes it eligible for resources predominantly from the Asian Development Fund (ADF). The allocation of ADF funds will depend on the revised performance-based allocation (PBA) policy, expected to be finalized later in 2004. For planning purposes, the annual allocation has been set at \$17.1 million in 2004–2006, but this will be subject to change based on the revised PBA policy.

34. Azerbaijan is also eligible for a limited amount of loan assistance funded out of ADB's ordinary capital resources (OCR).¹⁹ The Government recently reconfirmed its willingness to

¹⁸ Proposed regional TA for Mainstreaming Gender into the Poverty Reduction Strategy in Central Asia.

accept OCR funds and it was agreed that the first OCR loan be processed expeditiously for approval by the end of 2004. The 2005–2006 program includes three loan projects funded from OCR resources and one blended loan, combining both OCR and ADF resources.

B. Nonlending Program

35. The TA program for 2005–2006 covers 12 projects totaling \$5.5 million (Appendix 1, Table A1.7). Delivery of the planned TA program will require resources beyond the annual TA resource envelope. Full efforts will be made to seek cofinancing.

36. The nonlending support includes a range of economic, thematic, and sector work. ADB has helped the Government in preparing and implementing its poverty reduction strategy; governance, private sector, environment, and gender assessments are planned for 2004.

C. Summary of Changes

37. The proposed changes to the program compared to the last CSPU are summarized in the following table. The major changes include the addition of the Micro and Rural Finance Development Project and the Central Corridors Roads Improvement II Project and the deferment of the North-South Corridor Roads Improvement Project. For reference, the 2004 Assistance Program for Lending Products and the 2004 Assistance Program for Nonlending Products and Services are provided in Appendix A4.1 and Appendix A4.2, respectively.

Table 1: Proposed Changes to the Program

Change	Year	Lending program	Nonlending program
Added	2004	Micro and Rural Finance Development	Rural Finance Development ADTA Mahalla Business Development JFPR
	2005		Central Corridor Roads Improvement II PPTA
	2006	Central Corridor Roads Improvement II	Strengthening the Financial Management and Delivery of Road Maintenance ADTA
Deferred To	2006		North-South Corridor Roads Improvement PPTA (formerly Southern Azerbaijan Roads Improvement)
	2007	North-South Corridor Roads Improvement (formerly Southern Azerbaijan Roads Improvement)	Capacity Building for Ministry of Finance ADTA
Advanced To	2005		Housing Finance System Development ADTA

ADTA = advisory technical assistance, JFPR = Japan Fund for Poverty Reduction, PPTA = project preparatory technical assistance.

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A1.1: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	Country Status
Goal 1: Eradicate Extreme Poverty and Hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1/day.	According to latest State Programme on Poverty Reduction and Economic Development (SPPRED) annual report dated May 2004, the incidence of income poverty declined from 61.5% in 1995 to 46.7% in 2002.
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	There is no specific target for reducing nutrition-based poverty. However the extent of extreme poverty in Azerbaijan may be considered as a suitable proxy. According to latest SPPRED annual report, extreme poverty is estimated at about 10% in 2002.
Goal 2: Achieve Universal Primary Education	
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	Net enrollment rates in primary education are about 98.8%, according to the latest SPPRED annual report. Thus, the focus of efforts has shifted from ensuring universal primary education to improving the quality of primary and other stages of education.
Goal 3: Promote Gender Equality and Empower Women	
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.	According to national statistics, there is no significant gender disparity in enrollment at all levels. The gender assessment planned for 2004 will compile gender-relevant information on many dimensions of gender disparity in Azerbaijan.
Goal 4: Reduce Child Mortality^a	
Target 5: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.	The infant mortality rate was estimated at 102 per 1,000 live births in 1996 (UNICEF). The infant mortality rate declined from 43 in 1990 to 21 in 1999 (WHO).
Goal 5: Improve Maternal Health^a	
Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio (MMR).	The MMR was reported at 79 per 100,000 live births in 1998 (UNICEF); it increased from 10.4 in 1990 to 37.6 in 2000 (Ministry of Health). In 2002, the MMR is estimated at 37.6 (CIA, <i>The World Factbook</i> 2002)
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	The number of adult cases reported increased from 2 (1995) to 556 (2003). It is a growing problem.
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.	The reported cases of malaria were 505 persons in 2002 compared to 24 in 1990 and 13,000 in 1996. The number of tuberculosis cases was 54.5 per 100,000 population, which is 1.5% higher than in 1990.
Goal 7: Ensure Environmental Sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.	The Government has formulated a National Program on Environmentally Sustainable Socioeconomic Development in 2003, which determines the main areas of sustainable development and includes a plan of action for 2003–2010. Based on this program, sector action plans have been developed on the basis of sustainable development principles.

Continued on next page

Table A1.1—Continued

Goals and Targets	Country Status
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and adequate sanitation.	Although population access to piped network is about 94.2% in urban areas and 11.2% in rural areas, the water supply is unreliable and often unsafe. The Government plans to improve access to clean water supply in urban areas.
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.	Although Azerbaijan does not have slum dwellers, it does have an estimated 1 million refugees and internally displaced persons living for the most part in poor conditions. The Government plans to increase the average dwelling space per family and to improve the living conditions of internally displaced families by relocating them into better accommodations.

CIA = Central Intelligence Agency, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, UNICEF = United Nations Children's Fund, WHO = World Health Organization.

^a Azerbaijan switched to WHO standard rates from the Soviet standard in 2002. The infant mortality rate and the MMR are much higher according to the WHO standard than those based on the Soviet standard.

Sources: As given in the table.

Table A1.2: Country Economic Indicators

Item	Fiscal Year				
	1999	2000	2001	2002	2003
A. Income and Growth					
1. GDP per Capita (\$, current prices)	571.5	652.5	701.1	760.2	863.5
2. GDP Growth (% , constant prices)	7.4	11.1	9.9	10.6	11.2
Agriculture	—	12.1	5.0	6.4	5.6
Industry	—	5.7	6.7	15.2	15.0
Services	—	9.6	6.2	6.1	8.0
B. Saving and Investment (current prices)					
			(% of GDP)		
1. Gross Domestic Investment	26.5	20.7	20.7	32.0	—
2. Gross National Saving	13.4	17.1	19.8	19.7	—
C. Money and Inflation					
			(annual % change)		
1. Consumer Price Index ^a	(8.5)	1.8	1.5	2.8	2.2
2. Total Liquidity (M2)	8.7	27.1	31.7	14.4	29.8
D. Government Finance^b					
			(% of GDP)		
1. Revenue and Grants	19.1	24.0	22.0	23.6	29.3
2. Expenditure and Onlending	23.6	20.8	20.1	22.3	29.2
3. Overall Fiscal Surplus (Deficit)	(4.5)	3.3	1.8	1.3	0.2
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	(8.9)	4.9	10.2	7.7	(1.4)
2. Current Account Balance (% of GDP)	(13.1)	(3.5)	(0.9)	(12.3)	(28.3)
3. Merchandise Export (\$) Growth (annual % change)	51.3	75.5	13.7	12.7	13.9
4. Merchandise Import (\$) Growth (annual % change)	(16.9)	7.4	(4.8)	24.5	49.3
F. External Payments Indicators					
1. Gross Official Reserves (\$ million) ^c	697.1	950.6	1,218.0	1,413.8	1,620.0
(weeks of current year's imports of goods)	25.3	32.1	43.2	40.3	30.9
2. External Debt ^d Service (% of exports of goods and services)	4.2	4.6	4.9	4.4	5.0
3. External Debt ^d (% of GDP)	21.1	22.0	22.2	21.8	22.0
G. Memorandum Items					
1. GDP (current prices, AZM trillion)	18.9	23.6	26.6	30.3	35.1
2. Exchange Rate ^a (AZM per \$)	4,120.2	4,474.2	4,656.0	4,860.8	4,910.7
3. Population (million)	8.0	8.1	8.1	8.2	8.3

— = not available, GDP = gross domestic product.

^a Period average.

^b Consolidated budget, including the State Oil Fund of Azerbaijan Republic (SOFAZ). The figures for 2003 also include energy subsidies to the electricity and gas sectors and offsetting tax credits to the State Oil Company of Azerbaijan Republic equivalent to 5.6% of GDP.

^c Including gold and SOFAZ assets.

^d Public and publicly guaranteed external debt.

Sources: Government of Azerbaijan, International Monetary Fund, Asian Development Bank estimates.

Table A1.3: Country Poverty and Social Indicators^a

Item	Period			
	1985	1990	1990	Latest Year
A. Population Indicators				
1. Total Population (million)	6.7	7.1	(1990)	8.2 (2002)
2. Annual Population Growth Rate (% change)	1.6	1.5	(1991)	0.8 (2002)
B. Social Indicators				
1. Total Fertility Rate (births/woman)	2.9	2.7		2.3 (2002)
2. Maternal Mortality Ratio (per 100,000 live births) ^b	—	37.0	(1995)	37.6 (2000)
3. Infant Mortality Rate (below 1 year/1,000 live births)	29.4	84.0		82.7 (2002)
Under-5 Child Mortality Rate	—	43.1	(1993)	23.2 (2002)
4. Life Expectancy at Birth (years)	69.5	71.1		72.2 (2002)
Female	73.4	74.8		75.0 (2002)
Male	65.7	67.0		69.4 (2002)
5. Adult Literacy (%)	—	—		97.0 (2001)
Female	—	—		—
Male	—	—		—
6. Primary School Gross Enrollment (%)	—	84.2		98.8 (2002)
7. Secondary School Gross Enrollment (%)	96.8	90.2		88.8 (2002)
8. Child Malnutrition (% below age 5)	—	—		10.0 (1996)
9. Public Expenditure on Education (% of GDP)	—	6.9		4.2 (1998–2000)
Public Expenditure on Health (% of GDP)	—	2.8		0.8 (2002)
10. Human Development Index	—	—		0.744 (2001)
Rank	—	—		89 (2001)
11. Gender-Related Development Index	—	—		—
Rank	—	—		—
C. Poverty Indicators				
1. Income Poverty Incidence (Population) ^c	—	61.5	(1995)	46.7 (2002)
2. Percent of Poor to Total Population				
Baku ^c	—	59.6	(1995)	40.0 (2002)
Rural	—	—		45.4 (2002)
Internally Displaced Persons ^c	—	74.5	(1995)	63.0 (2002)
3. Poverty Gap	—	—		0.0822 (2002)
4. Poverty Severity Index	—	—		—
5. Inequality (Gini Coefficient)	—	—		0.276 (2002)
6. Human Poverty Index	—	—		26.9 (1997)
Rank	—	—		—

— = not available, GDP = gross domestic product.

^a Official indicators should be regarded with caution since they differ quite significantly from field observations and data collected by other sources.

^b Ministry of Health data were used for the infant mortality rate and maternal mortality ratios in this table as no other data show the trend for the last 15 years.

^c The 1995 and 2002 figures are not strictly comparable due to different methodologies used. Also, the 1995 data were based on households, instead of population.

Sources: Asian Development Bank. 2000. *Economic Report and Interim Operational Strategy for Azerbaijan*. Manila; State Committee for Statistics of the Azerbaijan Republic. 2004. *2003 Statistical Yearbook*. Baku; Azerbaijan Republic. 2004. *State Programme on Poverty Reduction and Economic Development: Annual Report—2003*. Baku; State Committee for Statistics of the Azerbaijan Republic. *Main Results of Household Budget Survey in 2003*. Baku; United Nations Development Programme. 2001. *Azerbaijan Human Development Report 2000*. New York; World Bank. 2003. *World Development Indicators Internet Website*; Central Intelligence Agency. *The World Factbook Internet Website*; United Nations Development Programme. 2003. *Human Development Report Internet Website*.

Table A1.4: Country Environment Indicators^a

Indicator	1990	Latest Year
A. Energy Efficiency of Emissions		
1. GDP/Unit of Energy Use (PPP\$/kgoe)	—	1.9 (2000)
2. Traditional Fuel Use (% of total energy use)	—	0.0 (1997)
3. Carbon Dioxide Emissions		
Million metric tons	—	32.0 (1997)
Tons per capita	6.3 (1992)	4.2 (1999)
B. Water Pollution: Water and Sanitation		
1. % Urban Population with Access to Safe Water	—	94.2 (2002)
2. % Rural Population with Access to Safe Water	—	11.2 (2002)
3. % Urban Population with Access to Sanitation	—	90 (2000)
C. Land Use and Deforestation		
1. Forest Area (million hectares)	10.0 (1995)	10.9 (2000)
2. Average Annual Deforestation		
Square kilometers	—	(130.0) (1990–2000)
% change	—	(1.3) (1990–2000)
3. Rural Population Density (arable land in ha per capita)	—	0.59 (2002)
4. Arable Land (% of total land)	50.7	54.9 (2002)
5. Permanent Cropland (% of total land)	7.9 (1994)	4.8 (2002)
D. Biodiversity and Protected Areas		
1. Nationally Protected Area		
'000 hectares	—	452.2 (2002)
% of total land	—	5.2 (2002)
2. Mammals (number of threatened species)	—	13 (2000)
3. Birds (number of threatened species)	—	8 (2000)
4. Higher Plants (number of threatened species)	—	28 (1997)
5. Reptiles (number of threatened species)	—	—
6. Amphibians (number of threatened species)	—	—
E. Urban Areas		
1. Urban Population		
Million	3.8	4.2 (2003)
% of total population	53.9	51.0 (2003)
2. Per Capita Water Use (liters/day)	—	—
3. Wastewater Treated (%)	—	—
4. Solid Waste Generated Per Capita (kg/day)	—	—

— = not available, kg = kilogram, kgoe = kilograms of oil equivalent, ha = hectare, km² = square kilometer, PPP = purchasing power parity.

^a Official indicators should be regarded with caution since they differ quite significantly from field observations and data collected by other sources.

Sources: Asian Development Bank. 2000. *Economic Report and Interim Operational Strategy for Azerbaijan*. Manila; State Committee for Statistics of the Azerbaijan Republic. 2004. *2003 Statistical Yearbook*. Baku; Azerbaijan Republic. 2004. *State Programme on Poverty Reduction and Economic Development: Annual Report—200*, Baku; State Committee for Statistics of the Azerbaijan Republic. 2003. *Main Results of Household Budget Survey in 2003*. Baku; United Nations Development Programme. 2001. *Azerbaijan Human Development Report 2000*; World Bank. 2003. *World Development Indicators Internet Website*. United Nations Development Programme. 2003. *Human Development Report Internet Website*.

Table A1.5: Development Coordination Matrix

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
Macroeconomic Stabilization, Structural Reforms, and Public Sector Reforms	Supporting good governance and institutional strengthening is one of the three strategic objectives of the interim operational strategy of the ADB. In line with this objective, ADB is currently providing technical assistance (TA) for capacity building for strategic economic policy formulation in the Ministry of Finance and plans to provide similar assistance to the Ministry of Economic Development in 2004.	<p>Since the mid-1990s, the IMF and the World Bank have been providing both financial and TA to Azerbaijan to support the Government's efforts to achieve and maintain macroeconomic stability and implement a broad range of structural and public sector reforms.</p> <p>In July 2001, IMF approved a 3-year loan of about \$100 million under the PRGF to support the Government's economic program and efforts to reduce poverty. The main objectives of the program are (i) to maintain macroeconomic stability, (ii) improve governance, and (iii) foster growth of the non-oil sector. In addition to macroeconomic policies, the program covers a number of key reform areas, such as fiscal reforms, strengthening of tax and customs administration, improvement of the business environment in the non-oil sector, liberalization of the trade regime, energy sector reforms, and financial sector reforms. The program has largely been on track, though minor slippages and delays have occurred. IMF completed the second review of the progress in implementing the program in May 2003.</p> <p>In February 2002, the World Bank approved Second Structural Adjustment Credit II (SAC-II) in an amount of \$60 million to support (i) public sector reforms aimed at strengthening policies and institutions for management of oil revenues, public expenditure management, poverty monitoring, social services, and social safety nets; (ii) accelerated and more broad-based development of the non-oil sector through continual improvement of the business environment; and (iii) improved financial discipline and service delivery in the utility sectors. The concomitant Institutional Building Technical Assistance II is intended to support the policy measures to be implemented under SAC-II. A new poverty reduction strategy credit is being prepared for approval in FY2005.</p> <p>USAID is providing assistance in computerization of the treasury system.</p> <p>EU TACIS is providing TA for capacity building at the Ministry of Economic Development.</p>
Agriculture and Rural Development	This is one of the four focus areas of ADB's near-term country program. ADB's initial assistance in this area focuses on flood mitigation to protect critical infrastructures from the threats of flooding from hill torrents.	<p>This is one of the focus areas of the World Bank's assistance to Azerbaijan. Four loans have already been approved to support land privatization, farm restructuring, development of rural business advisory services and credit, and rehabilitation of irrigation and drainage infrastructure. The latest two loans are a second irrigation loan, approved in FY2003, and the rural infrastructure loan, approved in FY2004.</p> <p>The World Bank has recently been requested to provide assistance to address the</p>

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Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>serious flooding in the Kura River Area. A proposal to construct levies on the upper reaches of the Kura River and to manage the water levels in the Mingechevir and Araz Reservoirs is still under consideration.</p> <p>In support of land reform, Japan is providing technical support and equipment for preparation of digital land maps. In addition, a revolving fund has also been provided under Japanese cooperation for agricultural machinery.</p> <p>EBRD has provided credit lines for SMEs in agro-processing and agribusiness.</p> <p>IsDB has funded irrigation and drainage rehabilitation and will continue its assistance in 2003. In addition, TA has been provided for agribusiness development.</p> <p>USAID is supporting credit programs for small farms and providing assistance to animal and milk product associations and business training to farmers with the goal of establishing clusters of agricultural producers and processors.</p> <p>EU has assisted with the establishment of five agribusiness centers to help farmers prepare business plans. Through its EXAP, EU provided limited assistance for flood protection in the Sheki-Zagatala region. A next stage of the EXAP foresees assistance for construction of flood control infrastructure in Nakhchivan Autonomous Region.</p> <p>The German Government is providing assistance for a pilot cadastral and state real estate registry project.</p>
Water Supply and Sanitation	This is one of the four focus areas of ADB's near-term country program. A water supply and sanitation sector analysis in secondary towns is being prepared under the ongoing TA project, which aims to prepare an investment project to improve water supply and sanitation services in three towns (Goychay, Agdash and Nakhchivan).	<p>The World Bank has approved a loan to assist with the rehabilitation of water supply and sanitation in the Greater Baku area. In addition, two Public-Private Infrastructure Advisory Facility studies of the regulatory framework and capacity in the power and water sectors and the private sector participation in the water sector in the Greater Baku area have recently been launched.</p> <p>KfW is preparing an investment project, which aims to improve water supply and sanitation in two secondary towns (Ganja and Sheki).</p>
Education	Since other agencies are currently covering this sector, ADB's assistance would be limited to education as a part of early childhood development.	The World Bank focuses on policy dialogue and sector reforms. A credit for the Education Reform Program (ERP) was approved in 1999 to support reforms in curriculum development and teacher education and training. Another education loan was approved in May 2003 to help finance the first phase of the ERP, which was developed by the Government in cooperation with the World Bank under the ERP.

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Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>UNICEF is supporting the piloting of decentralized management and community-level financing programs in five primary and secondary schools.</p> <p>The Soros Foundation is providing support in a number of areas, including local textbook development, printing capacity development, preschool education, and civic education management.</p>
Health	<p>ADB has already provided some assistance through a regional grant to arrest the trend of micronutrient deficiencies in Central Asia. Future assistance for early childhood development is also envisaged.</p>	<p>In September 2001, the World Bank approved a loan to support implementation of health sector reforms in five districts on a pilot basis. Since the experience to date has not been encouraging, the World Bank does not plan to finance new projects in the health sector in the near future.</p> <p>UNICEF and the World Health Organization are implementing pilot district health programs and providing support for maternal and child health care.</p> <p>JICA has provided support for the rehabilitation of the Center for Tuberculosis and Lung Diseases in Baku, a children's hospital, a maternity house, and a health training and service center. Further assistance has been provided for the purchase of medical equipment and the preparation of a comprehensive plan of reforms in the Health Sector.</p> <p>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) has provided support for an international training and service center, the establishment of a national system of health monitoring and training for medical staff.</p> <p>UNDP and the United Nations Population Fund are providing assistance in reproductive health care and the establishment of a network of family clinics.</p>
Social Protection/Pension	<p>Since World Bank is currently covering this sector, ADB will not be active.</p>	<p>The World Bank has made detailed recommendations on reforming the social protection system. A \$10 million credit to support reform of the pension system was approved in FY2004.</p> <p>The EU is providing TA for pension system development and labor protection. It also provided support for the establishment of employment services centers in various cities.</p>
Poverty Alleviation	<p>Since 2000, ADB projects, in keeping with its overarching objective, have had a significant focus on poverty reduction. ADB provided assistance in the preparation of Azerbaijan's</p>	<p>The Government's economic programs supported by the IMF under the PRGF and the World Bank under SAC-II have been designed to contribute to poverty reduction and promote sustainable development.</p> <p>World Bank completed a poverty assessment in 2002.</p>

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Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
	recently approved SPPRED and is now assisting in its implementation.	Many multilateral and bilateral agencies provided assistance with the preparation of the SPPRED and are now assisting in its implementation.
Assistance for Refugees and Internally Displaced Persons (IDPs)	This is one of the four focuses of ADB's near-term country program. ADB's assistance is aimed at helping the IDPs (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. The Japanese Fund for Poverty Reduction grant in the amount of \$2.5 million was approved in 2002 to assist 403 IDP households in Mingechevir city to reintegrate themselves into the mainstream of society.	<p>World Bank provided assistance through various projects, including a pilot reconstruction project approved in 1998 and a supplement project for the establishment of a social fund for IDPs.</p> <p>UNDP and other United Nations agencies play a leading role in coordinating humanitarian and emergency aid for refugees and IDPs. These include resettlement activities, a demining program by UNDP, and a shelter program by the United Nations High Commissioner for Refugees.</p> <p>The World Food Program is also active through various food supply initiatives.</p> <p>The EU has allocated funds for the improvement of basic infrastructure in the Agdam and Fizuli districts.</p> <p>GTZ participated in resettlement activities in the Fizuli and Horadiz districts.</p> <p>Japan provided grant assistance including humanitarian assistance (emergency food supply, demining, immunization for children), and supported human development activities.</p> <p>International nongovernment organizations provided emergency and humanitarian aid.</p>
Oil and gas	ADB's interim operational strategy expressly mentioned that ADB will not be involved in this sector, except as it may relate to crosscutting areas such as environment protection, private sector development and/or regional cooperation.	<p>The World Bank provided two loans to support the development of the oil and gas sector: the petroleum TA project to encourage foreign direct investment and the gas system rehabilitation project to support commercialization of the gas industry.</p> <p>The IFC is considering providing funds for the construction of the Baku-Tbilisi-Ceyhan oil export pipeline.</p> <p>EBRD has provided long term financing to seven oil companies operating in Azerbaijan, and mobilized complementary financing for projects in the oil and gas sector. EBRD is also considering financing regional oil and gas infrastructure projects, such as the Baku-Tbilisi-Ceyhan pipeline, and major oil and gas upstream projects.</p> <p>Japan has provided two loans to finance the Severnaya Gas Combined Power Plant project.</p> <p>EU TACIS has provided assistance to modernize the gas transmission network under the INOGATE program. EU TACIS also provided support to the Ministry of Fuel and Energy and for the rehabilitation of oil- contaminated land.</p>

Continued on next page

Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>US Trade Development Agency is assisting the State Oil Fund of Azerbaijan to develop its institutional capacity to better manage oil revenues.</p>
Energy	<p>Since other aid agencies are currently covering this sector, ADB would only consider projects in the sector if they are closely related to thematic areas such as regional cooperation, private sector development, and/or environment protection.</p>	<p>The World Bank provides support to improve the management of domestic energy systems and to restructure the relevant institutions.</p> <p>EBRD has provided two loans for the rehabilitation of the Yenikend and Mingchevir hydropower plants. In addition, it has provided TA to Azerenerji. EBRD intends to remain active in this sector in the future.</p> <p>KfW provided DM30 million for a power transmission rehabilitation program in 1998.</p> <p>JICA financed a power transmission rehabilitation project in Baku.</p> <p>EU TACIS provided TA on legislation in the electricity sector.</p>
Transport	<p>This is one of the four focus areas of ADB's near-term country program. ADB's assistance is aimed at rehabilitation of main road corridors, including the construction of rural roads to hinterland areas.</p>	<p>The World Bank is financing a project for rehabilitation of the Ganja-Qazakh section of the central corridor highway.</p> <p>EBRD has provided three loans for the modernization of Azerbaijan's air navigation systems, infrastructure improvements along the Trans-Caucasian Railroad, and the reconstruction of the ferry terminal in Baku. In the future, EBRD intends to finance the Gazi-Mammed to Kyurdamir segment of the central corridor highway, as well as provide financing of pre-feasibility studies of other important regional corridors.</p> <p>The focus of EU assistance is through the Transport Corridor Europe-Caucasus-Asia (TRACECA) program, which involves improvements in the east-west highway. The EU is also providing assistance for establishing the functions, organization, and operations of the Ministry of Transport.</p> <p>IsDB, Saudi Fund, OPEC Fund for International Development, Abu Dhabi Fund, and Kuwait Fund have all assisted or are planning to provide assistance for the upgrading of various segments of the central corridor highway.</p>
Finance, Privatization/Private Sector Development	<p>ADB's assistance for microfinance is focused on rural development and/or assistance to IDPs, which is/are among the focuses of ADB's near-term program.</p>	<p>IMF has provided substantial TA in strengthening banking regulation and supervision and upgrading the payments system.</p> <p>The World Bank is supporting the development of the financial sector through its multi-component Financial Sector Technical Assistance project. A loan is planned for FY2004 to support the development of the private sector and SMEs. In order to broaden access to financial services outside Baku, the World Bank is also considering</p>

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Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>providing technical and financial assistance to AzerPost.</p> <p>KfW has the financial sector as a focus of its financial cooperation with Azerbaijan. Recently, KfW, in conjunction with IFC, EBRD, and Black Sea Development Bank, has established the Microfinance Bank of Azerbaijan, a commercial bank focused on SME lending. In addition, KfW provides credit lines to selected Azerbaijan commercial banks through the German-Azerbaijan Fund. KfW is also working with the Bank Association to prepare regulation for a deposit insurance scheme.</p> <p>The IFC provides credit lines to SMEs through selected commercial banks.</p> <p>EBRD is providing credit lines for SMEs through selected commercial banks (TA and funds). EBRD participated in the establishment of the new Microfinance Bank and is involved in the privatization of the International Bank of Azerbaijan.</p> <p>EU is active in rural finance through the Rural Investment Foundation, a non-bank credit organization, providing loans in 24 rural districts.</p> <p>EU TACIS is providing support for the improved regulation of post-privatization activities of joint-stock companies and the development of a securities market.</p> <p>GTZ is supporting diagnostic studies of selected business areas of the private sector.</p>
Environment	<p>ADB's strategy stresses the importance of sound management of natural resources and protection of environment to promote sustainable development. Attention will be given to addressing environmental concerns relating to its own projects.</p>	<p>The World Bank, along with the Global Environment Facility and other bodies such as the EU, supports the environmentally sustainable development and management of the Caspian environment through the regional Caspian Environment Program. The World Bank further supports Azerbaijan's participation in the Caspian Environment Program through priority investment under the environmental investment and management program and other initiatives (urgent environment improvement program, lead phase-out program, and Shah-Dag rural environment project).</p> <p>The World Bank is conducting a study for a proposed Kura River Delta Rehabilitation Project. The project would be aimed at clearing the main channel of the Kura River Delta in order to allow access to the sturgeon population.</p> <p>JICA provided support for the development of an environment master plan in Baku.</p> <p>KfW is carrying out a study for establishment of two national parks in the northeast and northwest regions of Azerbaijan.</p> <p>UNDP provided support for the establishment of an Environment Center and the environmental rehabilitation of Sumgayit.</p>

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Table A1.5—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>EU TACIS financed the rehabilitation of oil-contaminated land. EBRD is providing support for the development of a national oil spill contingency plan.</p>
Law and Development	<p>Since other agencies are currently covering this sector, ADB will not be active.</p>	<p>IMF and the World Bank address various aspects of legal and judicial reforms under the PRGF arrangement and the SAC-II program, respectively.</p> <p>EBRD assisted with the development of the Secured Transactions Law, the Bankruptcy Law, and the Foreign Investment Law.</p> <p>GTZ provided assistance in the drafting of basic statutes such as the Civil Code, Civil Procedure Code, and Criminal Code.</p> <p>The Council of Europe provided assistance and comments on various draft laws.</p> <p>EU TACIS provided assistance for the establishment of an Azerbaijani Policy and Legal Advice Center and supported the modernization and reform of the legal and judicial system.</p>
Gender and Development	<p>ADB will prepare a gender assessment as part of its preparatory work for formulation of a Country Strategy and Program in 2005.</p>	<p>UNDP provides support through various capacity building activities, working with nongovernment organizations.</p>
Cultural Heritage	<p>Since other agencies are currently covering this sector, ADB will not be active.</p>	<p>The World Bank approved a Culture Heritage Project in 1999 to support the Government's efforts in the conservation and partial reconstruction of four historical monuments.</p> <p>The United Nations Educational, Scientific and Cultural Organization assisted the Government in thinking of ways to restore and preserve cultural monuments.</p>

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, ERP = Education Reform Project, EU = European Union, EU TACIS = European Union Technical Assistance to Commonwealth of Independent States, EXAP = Exceptional Assistance Program, GTZ = German Agency for Technical Cooperation, IDP = internally displaced persons, IFC = International Finance Corporation, IMF = International Monetary Fund, IsDB = Islamic Development Bank, JICA = Japan International Cooperation Agency, KfW = Kreditanstalt für Wiederaufbau, SAC = Structural Adjustment Credit, SME = small and medium-sized enterprise, SPPRED = State Programme on Poverty Reduction and Economic Development, PRGF = Poverty Reduction and Growth Facility, TA = technical assistance, UNDP = United Nations Development Programme, UNICEF = United Nations Children's Fund, USAID = United States Agency for International Development, WHO = World Health Organization.

Table A1.6: Assistance Pipeline for Lending Products, 2005–2006

Sector Project/Program Name	Poverty Classifi- cation	Thematic Priority	Division	Year of PPTA	Total	Cost (\$million)				
						ADB			Gov't	Cofi- nancing
						OCR	ADF	Total		
2005 Firm Loans										
Health, Nutrition, and Social Protection										
Early Childhood Development	PI	ISD/GAD	ECSS	2003	13.40	0.00	10.00	10.00	3.40	0.00
Social Infrastructure for IDPs	CPI	ISD	ECSS	2004	9.50	0.00	7.10	7.10	2.40	0.00
Subtotal					22.90	0.00	17.10	17.10	5.80	0.00
Transportation and Communication										
Central Corridor Roads Improvement I	OTH	ECG/REG	ECTC	2004	62.70	22.00	0.00	22.00	15.70	25.00
Subtotal					62.70	22.00	0.00	22.00	15.70	25.00
Total					85.60	22.00	17.10	39.10	21.50	25.00
Standby Loans										
Agriculture and Natural Resources										
Samur-Absheron Water Supply and Irrigation (First Stage)	PI	ECG/ISD	ECAE	2005	52.10	7.00	17.10	24.10	13.00	15.00
2006 Firm Loans										
Agriculture and Natural Resources										
Samur-Absheron Water Supply and Irrigation (First Stage)	PI	ECG/ISD	ECAE	2005	52.10	7.00	17.10	24.10	13.00	15.00
Subtotal					52.10	7.00	17.10	24.10	13.00	15.00
Transportation and Communication										
Central Corridor Roads Improvement II	OTH	ECG/REG	ECTC	2005	20.00	15.00	0.00	15.00	5.00	0.00
Subtotal					20.00	15.00	0.00	15.00	5.00	0.00
Total					72.10	22.00	17.10	39.10	18.00	15.00
Standby Loans										
Agriculture and Natural Resources										
Samur-Absheron Water Supply and Irrigation (First Stage) (Adjusted Amount)	PI	ECG/ISD	ECAE	2005	52.00	7.00	19.80	26.80	13.00	12.20

Continued on next page

Table A1.6—Continued

Sector Project/Program Name	Poverty Classifi- cation	Thematic Priority	Division	Year of PPTA	Total	Cost (\$million)				
						ADB			Gov't	Cofi- nancing
						OCR	ADF	Total		
Water Supply, Sanitation and Waste Management										
Urban Water Supply and Sanitation II	PI	ISD	ECSS	2006	26.40	0.00	19.80	19.80	6.60	0.00

ADB = Asian Development Bank; ADF = Asian Development Fund; ECAE = Agriculture, Environment, and Natural Resources Division; ECSS = Social Sectors Division; ECTC = Transport and Communication Division; CPI = core poverty intervention; ECG = sustainable economic growth, GAD = gender and development; ISD = inclusive social development; OCR = ordinary capital resources; OTH = others; PI = poverty intervention; PSD = private sector development; PPTA = project/program preparatory technical assistance; REG = regional cooperation.

Table A1.7: Assistance Pipeline for Nonlending Products and Services, 2005–2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2005							
Agriculture and Natural Resources							
1. Samur-Absheron Water Supply Irrigation	ECAE	PP	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Finance							
1. Housing Finance System Development	ECGF	ADTA	TASF	400.00		0.00	400.00
Subtotal				400.00		0.00	400.00
Law, Economic Management, and Public Policy							
1. Capacity Building for SPPRED Implementation—Phase 2	ECOC	ADTA	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Transportation and Communication							
1. Central Corridors Roads Improvement II (Qazakh-Georgian Border)	ECTC	PP	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Total				1,900.00		0.00	1,900.00
Standby							
Agriculture and Natural Resources							
1. Water Resources Assessment	ECAE	ADTA		0.00	TBD	400.00	400.00
Transportation and Communication							
1. Strengthening the Financial Management and Delivery of Road Maintenance	ECTC	ADTA		0.00	TBD	400.00	400.00
2006							
Agriculture and Natural Resources							
1. Water Resources Assessment	ECAE	ADTA	TASF	400.00		0.00	400.00
Subtotal				400.00		0.00	400.00

Continued on next page

Table A1.7—Continued

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Transportation and Communication							
1. North-South Corridor Roads Improvement	ECTC	PP	TASF	600.00		0.00	600.00
2. Strengthening the Financial Management and Delivery of Road Maintenance	ECTC	ADTA	TASF	400.00		0.00	400.00
Subtotal				1,000.00		0.00	1,000.00
Water Supply, Sanitation, and Waste Management							
1. Urban Water Supply and Sanitation II	ECSS	PP	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Total				1,900.00		0.00	1,900.00
Standby							
Law, Economic Management, and Public Policy							
1. Capacity Building for Ministry of Finance	ECOC	ADTA		0.00	TBD	400.00	400.00
Multisector							
1. Integrated Urban Development	ECSS	ADTA		0.00	TBD	500.00	500.00
Regional Technical Assistance (amounts cover two to eight DMCs) ^a							
2005							
Industry and Trade							
1. Trade Facilitation and Customs Cooperation Program, Phase III	ECGF	RETA	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00

^a For concept papers of regional TAs, see ADB.2004. *Regional Cooperation Strategy and Program for CARs, PRC, and Mongolia, 2005-2007*. Manila.

Continued on next page

Table A1.7—Continued

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Law, Economic Management, and Public Policy							
1. Support for Greater Silk Road Initiative, 2005	ECOC	RETA	TASF	900.00		0.00	900.00
Subtotal				900.00		0.00	900.00
Total				1,400.00		0.00	1,400.00
2006							
Multisector							
1. Harmonization of Cross Border Initiatives for Transport Sector in Central Asia	ECTC	RETA	TASF	850.00		0.00	850.00
Subtotal				850.00		0.00	850.00
Law, Economic Management, and Public Policy							
1. Support for Regional Economic Cooperation in Central Asia	ECOC	RETA	TASF	950.00		0.00	950.00
Subtotal				950.00		0.00	950.00
Total				1,800.00		0.00	1,800.00

ADB = Asian Development Bank, ADTA = advisory technical assistance, CARECU = Central Asia Regional Cooperation Unit, ECAE = Agriculture, Environment, and Natural Resources Division, ECGF = Governance, Finance and Trade Division, ECEN = Energy Division, ECOC = Operations Coordination Division, ECSS = Social Sectors Division, ECTC = Transport and Communication Division, ETSW = economic, thematic, and sector work, IAE = internal administrative expense, OTH = other, PP = project/program preparatory, RETA = regional technical assistance, SC = staff consultant, TASF = technical assistance special fund, TBD = to be determined.

CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for the following lending products:

- (i) Table A2.1: Early Childhood Development
- (ii) Table A2.2: Social Infrastructure for Internally Displaced Persons
- (iii) Table A2.3: Central Corridor Roads Improvement I
- (iv) Table A2.4: Samur-Absheron Water Supply and Irrigation (First Stage)

**Table A2.1: Early Childhood Development
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sectors: Health, Nutrition, and Social Protection Subsector: Early Childhood Development</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p><input type="checkbox"/> Other</p> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input checked="" type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Human Development, Other Vulnerable Groups</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input checked="" type="checkbox"/> Gender and development	
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input checked="" type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country Azerbaijan <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Social Sectors Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: R. Hiraoka</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: The conflict with Armenia and the process of transition from a centrally planned to a market economy have led to severe deterioration of the health situation of population, especially among the most vulnerable groups, including the internally displaced persons (IDPs), unemployed, women, and children.</p> <p>This project is in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving human development. It is also in line with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.</p> <p>b. Goal and purpose: The proposed project is aimed at enhancing human development by providing services</p>								

and supporting activities that ensure survival and promote development of Azerbaijan's children, particularly those who are most vulnerable and disadvantaged, including internally displaced children.

c. Components and outputs: A PPTA will determine the scope of the project, which is expected to include development, provision, and promotion of an integrated set of early childhood development service-delivery packages to address health, nutrition, and cognitive and psychosocial development needs of children under 6 years at various stages of growth and development, particularly those in IDP camps and settlements.

The participating localities will be selected based on a national assessment of administrative districts according to at-risk children in need of early child development services, and agreed-upon criteria (infant and child mortality rates, protein-energy malnutrition, high dropout rates, etc.).

d. Expected results and deliverables: To be finalized during PPTA.

e. Social or environmental issues or concerns: The following social issues would be addressed: (i) mainstreaming of gender concerns, and (ii) likely negative or positive impacts of the projects on indigenous people.

f. Plans for disseminating results/deliverables: To be determined.

7. Proposed executing/implementing agencies: Ministry of Education

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The proposed project has been discussed with Ministry of Education and Ministry of Health and both ministries are in agreement about its appropriateness and urgency.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001

b. Expected date of submission for approval
Lending: 2005
Nonlending (project preparatory): 2003
Nonlending (other than project preparatory):

c. Period and duration of assistance{s}
Lending: 2005–2009
Nonlending: 2004, 8 months

10. Financing Plan

- a. For lending
- Ordinary capital resources: \$
 - Asian Development Fund: \$10 million
 - Other: \$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	10.0
Government Financing	3.4
Other Financing	0.0
Total Cost	13.4

Source: ADB estimates.

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds: \$600,000 (TASF)
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.
If known, provide cost estimates and financing arrangements.

Source	Amount (\$'000)
ADB Financing	600.0
Government Financing	150.0
Other Financing	0.0
Total Cost	750.0

Source: ADB estimates.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.

**Table A2.2: Social Infrastructure for Internally Displaced Persons
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sectors: Health, Nutrition, and Social Protection Subsector: Other health and social services</p> <p>b. For project preparatory and lending, classification {check one}</p> <p><input checked="" type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p><input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Human Development, Indigenous People</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country Azerbaijan <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Social Sectors Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer(s): To be determined</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: A decade after the beginning of the conflict over Nagorno-Karabakh, approximately 800,000 refugees and internally displaced persons (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 future generations of IDPs.</p> <p>The experience and lessons learned during the implementation of the ongoing JFPR project for integration of IDPs in Mingchevir will be taken into account in the design and implementation of the proposed project.</p> <p>This project is in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving</p>								

human development. It is also in line with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.

b. Goal and purpose: This project is aimed at improving the living conditions of IDPs in the new or existing settlements, and their livelihood opportunities.

c. Components and outputs: A PPTA will determine the scope of the project, which could include 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. Other areas to be investigated under the PPTA may include development of employment opportunities for IDPs (i.e., carpet-making, textiles), the efficient use of land allotted for IDPs, and improvement of education opportunities for IDP children and young adults.

d. Expected results and deliverables: To be finalized during the PPTA.

e. Social or environmental issues or concerns: The following social issues would be addressed: (i) mainstreaming of gender concerns, (ii) likely negative or positive impacts of the projects on indigenous people, and (iii) involuntary resettlement effects of the project. Assistance to the IDP population should be carefully formulated to minimize tension with the local non-IDP population, which would not have access to the assistance.

f. Plans for disseminating results/deliverables: Participation of IDPs and local communities will be crucial in ensuring success of the project.

7. Proposed executing/implementing agencies: To be determined

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The proposed project has been discussed with the Ministry of Economic Development, the State Committee for Refugees and Internally Displaced Persons, and the Azerbaijan Reconstruction and Rehabilitation Agency. Additional discussions with internally displaced persons and other project beneficiaries will be conducted during preparation of the PPTA.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001 (Under original name of New Settlements Basic Infrastructure Services)

b. Expected date of submission for approval
Lending: 2005
Nonlending (project preparatory): 2004
Nonlending (other than project preparatory):

c. Period and duration of assistance{s}
Lending: 2005–2009
Nonlending: 2004, 8 months

10. Financing Plan

- a. For lending
 Ordinary capital resources: \$
 Asian Development Fund: \$7.1 million
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	7.1
Government Financing	2.4
Other Financing	0.0
Total Cost	9.5

Source: ADB estimates.

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds: \$500,000 (TASF)
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.

**Table A2.3: Central Corridor Roads Improvement I
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p> <input checked="" type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transportation and Communication Subsector: Roads and highways</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input checked="" type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input checked="" type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Fostering Physical Infrastructure Development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country Azerbaijan <input type="checkbox"/> Subregional <input checked="" type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Transport and Communications Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: H. Wang</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: Given Azerbaijan's geographic location in the Caucasus region, adequate road infrastructure is of vital importance to ensure efficient trade flows and, thereby, balanced development of the economy. The road subsector is one of the four areas designated for ADB assistance in the Azerbaijan Country and Strategy Program Update (2004–2006) and the Interim Operational Strategy (2000). The central corridor highway between Baku, Azerbaijan's capital city, on the Caspian Sea, and the Georgian border, about 500 km long, and is the main access route for import and export of goods to and from Azerbaijan. It is Azerbaijan's portion of the trans-Caucasian corridor between the Caspian and Black seas, and of the main link in the proposed revival of the Silk Road. Sections of this road are now being rehabilitated by international funding agencies, including the World Bank, European Bank for Reconstruction and Development (EBRD), Islamic Development Bank, and others. The project contributes to ADB's overall strategy in Azerbaijan of reducing poverty through enhanced economic growth. It is also in line with the second component of ADB's</p>								

strategy, helping to correct imbalanced growth.

b. Goal and purpose: 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 a dilapidated condition. It will also contribute to improved management of the transport sector.

c. Components and outputs: The Project will rehabilitate the Yevlakh-Ganja segment (88.3 kms) of the Baku-Tbilisi highway and provide connector roads in the adjoining districts. ADB's policy dialogue in the sector will address topics such as enhancing the policy-making and regulatory capacity of the Ministry of Transport, improving road safety, reducing vehicle emissions, and introducing private participation, especially in road maintenance and the financing of road projects. The project will include civil works for rehabilitation, consulting services for project implementation, institutional strengthening and policy reform, and possibly purchase of equipment for road maintenance.

d. Expected results and deliverables: Rehabilitation of the Yevlakh-Ganja segment of the Baku-Tbilisi highway, as well as connector roads. Implementation of policy reforms.

e. Social or environmental issues or concerns: The following issues would be addressed: (i) likely negative or positive impacts of the projects on indigenous people, (ii) involuntary resettlement effects of the project, and (iii) mitigation of potential adverse environmental impacts. Additional issues to be determined during the PPTA.

f. Plans for disseminating results/deliverables: To be determined.

7. Proposed executing/implementing agencies: Ministry of Transport

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: Discussions have been held with the Cabinet of Ministers, Ministry of Economic Development, and Ministry of Transport on identifying the section of the road to be rehabilitated by the project. In addition, discussions have been led with other funding agencies involved the corridor, including World Bank, EBRD, Islamic Development Bank, and OPEC Fund for International Development. Beneficiary consultations will be carried out during the PPTA.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001

b. Expected date of submission for approval
Lending: First Half 2005
Nonlending (project preparatory): 2004
Nonlending (other than project preparatory):

c. Period and duration of assistance{s}
Lending: 2005–2009
Nonlending: 2004, 4 months

10. Financing

a. For lending

- Ordinary capital resources: \$22 million
 Asian Development Fund: \$
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$ _____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	22.0
Government Financing	15.7
Other Financing	25.0
Total Cost	62.7

Source: ADB estimates.

b. For nonlending

- No resources required, other than ADB staff
 ADB's administrative budget: \$
 Grant TA funds: \$400,000 (TASF)
 Other:

If cofinancing is required, indicate amount and sources sought: \$ _____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.

**Table A2.4: Samur-Absheron Water Supply and Irrigation (First Stage)
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p> <input checked="" type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input checked="" type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Natural Resources Subsector: Water resource management</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input checked="" type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p>Theme:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Fostering Physical Infrastructure Development, Developing Rural Areas, Human Development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country Azerbaijan <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Agriculture, Environment, and Natural Resources Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: B. Tambunan</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: The Samur-Absheron canal 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. Currently, the World Bank is financing the rehabilitation of the headworks on the system, while the Islamic Development Bank is financing the rehabilitation of the Khanarkh canal, up to the town of Deveji. The Japanese Government is considering providing assistance to finance the construction of a new canal from Deveji into a new storage reservoir at Takhtakorpu river. The Government has requested ADB to finance construction of the remaining Samur-Absheron canal system of about 80 kms. From Takhtakorpu reservoir to Jeyranbatan reservoir, the estimated cost is \$80.0 million. It is proposed that the project be implemented in two phases.</p>								

This project is in line with the overall ADB strategy in Azerbaijan of reducing poverty through improving human development. It is also in line with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.

b. Goal and purpose: Improvement in the reliability and quality of drinking water in Baku and provision of irrigation water to farmers through construction of the last stretch of the Samur-Absheron canal system.

c. Components and outputs: A PPTA will determine the scope of the project, which is expected to include construction of about 80 kms of the water channel from the Takhtakorpu reservoir to the Jeyranbatan reservoir outside Baku, as well as dismantling two oil-fired pumping stations along the existing canal route.

d. Expected results and deliverables: More efficient and assured water supply and irrigation water.

e. Social or environmental issues or concerns: The following social issues would be addressed: (i) likely negative or positive impact of the project on indigenous people, and (ii) resettlement effects of the project. Additional social issues to be determined during the PPTA. An environmental impact assessment may be required.

f. Plans for disseminating results/deliverables: Participatory workshops will be conducted to include all stakeholders.

7. Proposed executing/implementing agencies: State Amelioration and Irrigation Committee

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

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 2004.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001

b. Expected date of submission for approval
Lending: 2006 (standby 2005)
Nonlending (project preparatory): 2005
Nonlending (other than project preparatory):

c. Period and duration of assistance(s)
Lending: 2005–2009
Nonlending: 2005, 8 months

10. Financing Plan

- a. For lending
- Ordinary capital resources: \$7 million
 - Asian Development Fund: \$17.1 million
 - Other: \$

If cofinancing is required, indicate amount and sources sought: \$15 million, from To be determined.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	24.10
Government Financing	13.00
Other Financing	15.00
Total Cost	52.10

Source: ADB estimates.

Depending on ADF availability in 2006, ADB may be able to provide additional ADF funds. In the assistance pipeline for lending products, this possible increase in ADF funding is indicated under "Standby 2006" and the project name has been followed with "(Adjusted Amount)".

b. For nonlending

- No resources required, other than ADB staff
 ADB's administrative budget: \$
 Grant TA funds: \$500,000
 Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for the following nonlending products and services:

- (i) Table A3.1: Housing Finance System Development
- (ii) Table A3.2: Capacity Building for SPPRED Implementation—Phase 2
- (iii) Table A3.3: Water Resources Assessment
- (iv) Table A3.4: Strengthening the Financial Management and Delivery of Road Maintenance

**Table A3.1: Housing Finance System Development
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sectors: Finance Subsectors: Housing Finance</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p> Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p> Subthemes: Promoting Economic Efficiency and Enabling Markets, Financial and Economic Governance</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Governance, Finance and Trade Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: A. Mathur</p>								
<p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy</p> <p>Housing has been almost exclusively financed by the Government in Azerbaijan. In addition, deposit taking for the medium term is as yet undeveloped. Thus mortgage lending is practically nonexistent. Mortgage processing and mortgage financing is needed to enable households to purchase and finance new homes. Recently, the National Bank of Azerbaijan (NBA) has begun to develop a mortgage finance conceptual framework through both analysis of possible mechanisms of housing finance models and development of a legal framework to promote the sector. NBA has explicitly requested ADB to assist in the promotion of a modern housing finance system in Azerbaijan. In particular, assistance has been requested for the development of appropriate legislation. At the moment, EBRD has provided a concept paper to the Government regarding a possible project</p>								

to establish a mortgage registry. Other international and bilateral agencies are not providing any assistance in this area.

b. Goal and purpose: The project aims at increasing the supply of financial services for housing in Azerbaijan through the establishment of a housing finance system.

c. Components and outputs: The expected main outputs of the project are as follows:

- (i) promotion of an effective, stable, and financially sustainable housing finance system; and
- (ii) development of institutional capacity within the central bank and commercial banks to assess the value of and establish collateral processes for home mortgages.

d. Expected results and deliverables: Results and deliverables include:

- (i) review of the existing legal infrastructure affecting housing finance, including an initial draft law produced by the NBA;
- (ii) identification of the most suitable model of housing finance for Azerbaijan;
- (iii) recommendations to amend the relevant legal framework and to make security interests enforceable;
- (iv) recommendations on how to design and establish a liquidity facility for housing finance development;
- (v) institutional capacity building for central and commercial banks to implement the selected model;
- (vi) specific training program and assistance for the central bank and commercial banks; and
- (vii) identification of a possible follow-up project to further promote the growth of the housing finance system.

e. Social or environmental issues or concerns: The project will have a positive social impact rendering housing purchases more affordable for a growing share of the population. The following social issues would be addressed: (i) mainstreaming of gender concerns, and (ii) likely negative or positive impacts of the project on indigenous people (in the context of IDP versus non-IDP households). There are no anticipated environmental concerns.

f. Plans for disseminating results/deliverables: Workshops, meetings, and reports.

7. Proposed executing/implementing agencies: National Bank of Azerbaijan

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: NBA requested ADB for assistance to promote an effective housing finance system and create a legal and regulatory framework for supporting a sound environment for housing finance.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2003
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2005 (standby 2004)
- c. Period and duration of assistance:
 - Lending:
 - Nonlending: To be determined.

10. Financing Plan

a. For lending

- Ordinary capital resources: \$
 Asian Development Fund: \$
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$ _____, from _____.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

b. For nonlending

- No resources required, other than ADB staff
 ADB's administrative budget: \$
 Grant TA funds: \$400,000
 Other:

If cofinancing is required, indicate amount and sources sought: \$400,000, from To be determined.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

ADB = Asian Development Bank, CSP = country strategy and program, EBRD = European Bank for Reconstruction and Development, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.2: Capacity Building for SPPRED Implementation—Phase 2
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other: advisory activities</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sectors: Law and Public Sector Management Subsectors: National government administration</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p> Theme:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p> Subthemes: Public Governance, Civil Society Participation</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Operations Coordination Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: M. Gatti</p>								
<p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy:</p> <p>During the period July 2001–October 2002, the Government's State Programme on Poverty Reduction and Economic Development (SPPRED) Secretariat coordinated work on the preparation of SPPRED 2003–2005. This document was presented and endorsed at a national conference held in Baku on 25 October 2002. The policy measures envisaged in the strategy document cover a 3-year implementation period (until end-2005), and during this period the Secretariat will be responsible for (i) coordinating the efforts of government agencies and funding organizations in ensuring successful implementation of the policy actions set out in the national strategy; (ii) improving government capacity to define and monitor key poverty indicators; (iii) taking the participatory process forward and developing further the dialogue between policy makers and civil society; (iv) monitoring the implementation of the policy measures set out in the national strategy and reviewing them on an annual basis;</p>								

and (v) ensuring that macroeconomic and fiscal policies are consistent and support the strategy set out in the document. In order to accomplish the above tasks, the Government is receiving assistance from funding agencies, including ADB, for a first phase to build capacity in the SPPRED Secretariat. The proposed TA would assist with the second phase of the SPPRED, which would prepare the next phase of the SPPRED for 2006–2008.

This project directly addresses ADB's overarching goal of providing assistance to reduce poverty and raise people's living standards in Azerbaijan. The project is also in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving human development.

b. Goal and purpose:

The TA aims to strengthen the capacity of the Government's SPPRED Secretariat to monitor the implementation of the recently approved SPPRED 2003–2005 and to prepare the new SPPRED covering 2006–2008.

c. Components and outputs:

The TA may include the following:

- (i) financing of the international long-term expert to work in close coordination with the head of the SPPRED Secretariat to supervise the team of part-time local experts,
- (ii) financing of a certain number of part-time local experts,
- (iii) provision of training and office equipment for SPPRED Secretariat staff, and
- (iv) financing for seminars and conferences.

d. Expected results and deliverables:

The TA is expected to build up the capacity of the SPPRED Secretariat for effective monitoring of the implementation of the NPPR. The expected results and deliverables may include: (i) new SPPRED 2006–2008, (ii) annual and quarterly reviews to the advisory board of the progress in the implementation of the state program, (iii) annual bulletin published by the poverty monitoring unit in the Secretariat, (iv) improved coordination and cooperation between relevant ministries and government agencies and the SPPRED Secretariat, (v) improvement of the SPPRED Secretariat Web site, and (vi) ad hoc reports on sector issues.

e. Social or environmental issues or concerns: The following social issues would be addressed: (i) mainstreaming of gender concerns, and (ii) assisting IDPs to insert themselves into the mainstream of economic and social life of Azerbaijan. There are no anticipated environmental concerns.

f. Plans for disseminating results/deliverables:

- (i) published annual and quarterly reviews;
- (ii) participatory workshops with nongovernment organizations, academics, and policy makers, community organizations, and funding agencies, and
- (iii) SPPRED Secretariat Web site.

7. Proposed executing/implementing agencies: State Programme on Poverty Reduction and Economic Development Secretariat, Ministry of Economic Development

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

The project was proposed in August 2003 following the Country Programming Mission in May 2003. Additional discussions were held during the mission of the head of the SPPRED Secretariat to Manila to attend a regional poverty reduction workshop on 21–22 August. Detailed discussions and agreement on scope, technical requirements, and implementation arrangements of the TA with various stakeholders in Azerbaijan took place during the national poverty conference in Baku on 26 May 2004. ADB will continue to coordinate closely with the other funding agencies involved in the SPPRED process, particularly World Bank and the United Nations Development Programme, to set out a coherent operational framework and financing plan for the implementation of the second phase of the implementation of the SPPRED.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP update: 2003
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): March 2005
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 18–24 months, commencing the second quarter of 2005

10. Financing Plan

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds: \$500,000
 - Other:

If cofinancing is required, indicate amount and sources sought: \$500,000 from To be determined.
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

ADB = Asian Development Bank, CSPU = country strategy and program update, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.3: Water Resources Assessment
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Natural Resources Subsector: Water resource management</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p>Theme:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subtheme(s): Natural Resources Conservation</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Agriculture, Environment and Natural Resources Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: B. Tambunan</p>								
<p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy: Azerbaijan has limited water resources, with a total availability estimated at 32.2 billion cubic meters (m³) per annum, of which 70% has its sources in neighboring countries. The country's available groundwater resources are estimated at 10.6 million m³ per day and only about one third (3.5 million m³) are being used. There are a number of reservoirs with a total capacity of 21.5 billion m³, which are used for irrigation and hydropower generation. It is estimated that a total of 11–12 billion m³ of water are utilized annually, 67% for agriculture, 20–25% for industry, and the remainder for domestic water supply and other uses. As a result of inadequate and poor water resources management, about 10% of the available water resources are lost regularly.</p> <p>The Government is aware that to sustain use of its available water resources, there is a need to accurately</p>								

estimate the quantity and quality of Azerbaijan's available water resources, and determine existing and increasing future demands.

b. Goal and purpose: To improve the use of water resources in a sustainable manner by developing sound policies and institutional measures toward integrated water resources management.

c. Components and outputs: The TA will undertake a quantitative and qualitative assessment of the water resources of Azerbaijan in a comprehensive manner, carry out a water balance study, and review the institutional framework for integrated water resources management.

d. Expected results and deliverables: The TA results will include: (i) policy and institutional recommendations toward integrated water resources management, (ii) a water balance analysis, and (iii) a prioritized list of future water resources development alternatives.

e. Social or environmental issues or concerns: No social issues are foreseen. The TA will improve the environmental situation in Azerbaijan through a better understanding and more efficient management of the country's water resources.

f. Plans for disseminating results/deliverables: Consultants' reports and workshops on the results of the TA to concerned government officials and other stakeholders.

7. Proposed executing/implementing agencies: State Amelioration and Irrigation Committee

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:
 The assistance has been identified in consultation with the Ministry of Agriculture and the State Amelioration and Irrigation Committee, and is included in the Government's Plan for Agricultural development for 2003–2015.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2003

b. Expected date of submission for approval
 Lending:
 Nonlending (project preparatory):
 Nonlending (other than project preparatory): 2006 (standby 2005)

c. Period and duration of assistance
 Lending:
 Nonlending: To be determined.

10. Financing Plan

a. For lending
 Ordinary capital resources: \$
 Asian Development Fund: \$
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

b. For nonlending
 No resources required, other than ADB staff
 ADB's administrative budget: \$
 Grant TA funds: \$400,000
 Other:

If cofinancing is required, indicate amount and sources sought: \$400,000, from To be determined.
If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.4: Strengthening the Financial Management and
Delivery of Road Management Maintenance
Concept Paper**

Date: June 2004

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan:</p> <p> <input type="checkbox"/> Other</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other: advisory technical assistance</p>								
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sectors: Transportation and Communication Subsectors: Multimodal transport and sector development</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic areas</p> <p> Themes:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input checked="" type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p> Subthemes: Financial and Economic Governance</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: Transport and Communications Division, East and Central Asia Department</p>								
<p>5. Responsible ADB officer: H. Wang</p>								
<p>6. Description of assistance</p> <p>a. Background/linkage to country/regional strategy: Effective road maintenance is essential if the expected benefits of investment in road improvements are to be achieved in the long term and in order to preserve the value of road assets.</p> <p>b. Goal and purpose: The TA will recommend ways in which the existing institutional arrangements for financing, managing, and delivering road maintenance can be strengthened to enhance the sustainability of investments in the road sector.</p> <p>c. Components and outputs: To be determined.</p>								

- d. **Expected results and deliverables:** The TA is expected to contribute to the efficient management of the transport sector in Azerbaijan.
- e. **Social or environmental issues or concerns:** No social issues are foreseen. The project would have a positive effect on the environment through improved the management and operation of roads, which would, in turn, result in fewer vehicle emissions.
- f. **Plans for disseminating results/deliverables:** Consultants' reports and recommendations; workshops for the policy discussion and presentation of the results of the TA to the concerned government officials; and the final conference on the outcomes of the TA.

7. **Proposed executing/implementing agencies:** Ministry of Transport

8. **Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**
The TA has been discussed with the Ministry of Transport and the Ministry of Economic Development.

9. **Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2004
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2006
- c. Period and duration of assistance
 - Lending:
 - Nonlending: To be determined.

10. **Financing Plan**

- a. For lending
 - Ordinary capital resources: \$
 - Asian Development Fund: \$
 - Other: \$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.
If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget: \$
 - Grant TA funds: \$400,000
 - Other:

If cofinancing is required, indicate amount and sources sought: \$400,000, from To be determined.
If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance, TBD = to be determined.

Table A4.1: Assistance Pipeline for Lending Products, 2004

Sector Project/Program Name	Poverty Classifi- cation	Thematic Priority	Division	Year of PPTA	Total	Cost (\$million)				
						ADB			Gov't	Cofi- nancing
						OCR	ADF	Total		
2004 Firm Loans										
Finance										
Micro and Rural Finance Development	PI	ECG/PSD	ECGF		26.70	20.00	0.00	20.00	6.70	0.00
Subtotal					26.70	20.00	0.00	20.00	6.70	0.00
Water Supply, Sanitation and Waste Management										
Urban Water Supply and Sanitation I	PI	ISD	ECSS	2001	42.00	0.00	17.10	17.10	14.90	10.00
Subtotal					42.00	0.00	17.10	17.10	14.90	10.00
Total					68.70	20.00	17.10	17.10	21.60	10.00

ADB = Asian Development Bank; ADF = Asian Development Fund; ECAE = Agriculture, Environment, and Natural Resources Division; ECSS = Social Sectors Division; ECTC = Transport and Communication Division; CPI = core poverty intervention; ECG = sustainable economic growth, GAD = gender and development; ISD = inclusive social development; OCR = ordinary capital resources; OTH = others; PI = poverty intervention; PSD = private sector development; PPTA = project/program preparatory technical assistance; REG = regional cooperation.

Table A4.2: Assistance Pipeline for Nonlending Products and Services, 2004

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Finance							
1. Mahalla Business Development	ECGF	OTH	Grant	1,000.00		0.00	1,000.00
2. Micro and Rural Finance Development	ECGF	ADTA	TASF	800.00		0.00	800.00
Subtotal				1,800.00		0.00	1,800.00
Law and Public Sector Management							
1. Capacity Building for Ministry of Economic Development	ECOC	ADTA	TASF	600.00		0.00	600.00
2. Governance Assessment	ECGF	ETSW	SC/IAE				
3. Private Sector Assessment	ECGF	ETSW	IAE				
Subtotal				600.00		0.00	600.00
Transport and Communication							
1. Central Corridor Roads Improvement I (Yevlakh-Ganja)	ECTC	PP	TASF	150.00		0.00	150.00
Subtotal				150.00		0.00	150.00
Water Supply, Sanitation, and Waste Management							
1. Institutional Strengthening of the Water Supply and Sanitation Sector in Secondary Towns	ECSS	ADTA	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
Multisector							
1. Social Infrastructure for IDPs	ECSS	PP	TASF	500.00		0.00	500.00
2. Environment Assessment	ECSS	ETSW	RETA/IAE				
3. Gender Assessment	ECSS	ETSW	RETA/IAE				
4. Urban Environment Profile	ECSS	ETSW	IAE				
Subtotal				500.00		0.00	500.00
Total				3,550.00		0.00	3,550.00
Standby Finance							
1. Housing Finance System Development	ECGF	ADTA		0.00	TBD	400.00	400.00

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Table A4.2—Continued

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Regional Technical Assistance (amounts cover two to eight DMCs)							
2004							
Industry and Trade							
1. Trade Facilitation and Customs Cooperation Program, Phase II	ECGF	RETA	TASF	600.00		0.00	600.00
Subtotal				600.00		0.00	600.00
Law, Economic Management, and Public Policy							
1. Support for Greater Silk Road Initiative, 2004	ECOC	RETA	TASF	900.00		0.00	900.00
2. Mainstreaming Gender into Poverty Reduction Strategies in CAR	ECSS	RETA			TBD	350.00	350.00
Subtotal				900.00		350.00	1,250.00
Agriculture and Natural Resources							
1. Central Asian Republics Initiative for Land Management (CARILM)	ECAE	RETA	TASF	500.00		0.00	500.00
Subtotal				500.00		0.00	500.00
MultiSector							
1. Central Asia Regional Cooperation in Trade, Transport, and Transit	ECOC	RETA	TASF	350.00		0.00	350.00
Subtotal				350.00		0.00	350.00
Total				2,350.00		350.00	2,700.00

ADB = Asian Development Bank, ADTA = advisory technical assistance, CARECU = Central Asia Regional Cooperation Unit, ECAE = Agriculture, Environment, and Natural Resources Division, ECGF = Governance, Finance and Trade Division, ECEN = Energy Division, ECOC = Operations Coordination Division, ECSS = Social Sectors Division, ECTC = Transport and Communication Division, ETSW = economic, thematic, and sector work, IAE = internal administrative expense, OTH = other, PP = project/program preparatory, RETA = regional technical assistance, SC = staff consultant, TASF = technical assistance special fund, TBD = to be determined.