

Asian Development Bank & Azerbaijan

FACT SHEET

Table 1. Azerbaijan: Development Indicators

Non-MDG	
Population in millions	8.63 (2008)
Annual population growth rate (%)	1.1 (2006–2008)
Adult literacy rate (%)	99.4 (2007)
Percent of population in urban areas	51.8 (2007)
MDG	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	13.2 (2008)
Under-5 mortality rate per 1,000 live births	39 (2007)
Percent of population using an improved drinking water source	78 (2006)

... = data not available, MDG = Millennium Development Goal.

Sources: ADB, 2009. *Basic Statistics 2009*. Manila.
UNESCO, 2009. Institute for Statistics Data Centre.
World Bank, 2009. World Development Indicators Online.

For the fourth consecutive year, Azerbaijan's economy was among the fastest-growing economies in the world in 2008; however, growth declined to 10.8% from 25.4% in 2007, and 33.4% in 2006. The contribution of net exports, fueled by expansion of hydrocarbon exports, was the major driver of growth.

Azerbaijan emerged as one of the world's top reformers in streamlining business regulation in 2008, with seven out of 10 areas measured by the World Bank's Doing Business index showing improvement, including introduction of a one-stop shop for business start-up and a unified property registry, and greater protection for minority shareholders.

Rapid economic growth is placing significant stress on inadequate physical and social infrastructure. At the same time, the large inflow of foreign revenue from oil exports is fueling inflation and pushing up the exchange rate. Recognizing these development challenges, the Government of Azerbaijan has implemented a number of programs to promote sustainable economic development in the non-oil sector to rehabilitate deteriorating physical infrastructure and to reduce disparities between the country's regions.

Relationship with ADB

Azerbaijan has received \$585.4 million in loan assistance since joining the Asian Development Bank (ADB) in 1999.

ADB's operations in Azerbaijan involve both the public and private sectors, and are undertaken in line with the Government's own development strategies. ADB has significantly increased its involvement in the private sector, helping to strengthen the country's undercapitalized banking sector and to develop private infrastructure. As private banks are a key source of small-scale loans, especially for individual entrepreneurs and small- and medium-sized enterprises (SMEs), they are critical to the economy. ADB has also been playing an important role in Azerbaijan's transport sector, particularly in the development of roads. A multitranches financing facility (MFF) for the country's road development program has marked a new milestone in the cooperation between ADB and Azerbaijan.

ADB has also provided loans to rehabilitate water supply and sanitation facilities in regional towns and to upgrade major power transmission lines, and technical assistance to support the Government's efforts to prepare a long-term sustainable economic and social development strategy and program. ADB shares the objectives and aspirations of the Government to reduce poverty and promote sustainable and inclusive economic growth.

The Country Strategy and Program (CSP) Update for 2006 can be found at www.adb.org/Documents/CSPs/AZE/2004/default.asp.

Impact of Assistance

ADB operations only began in Azerbaijan 2000 but a number of projects administered or directly funded by ADB have had a significant impact in reducing poverty.

ADB administered a \$2.5 million grant from the Japan Fund for Poverty Reduction (JFPR) for a pilot project to integrate internally displaced persons in Mingechavir into society. The project has made a substantial difference to living conditions by improving housing for more than 412 families and creating job opportunities. It has benefited more than 12,000 people, of which about 73% were poor.

In 2003, a \$22 million loan from the Asian Development Fund was approved for works to protect 12 districts in four flood-prone areas, where poverty is significantly higher than the national average. The project will protect 5 towns and 43 villages, and support the livelihoods of more than 200,000 people living on 76,790 hectares of floodplains. It will prevent an estimated \$4.83 million in annual losses due to flooding.

In 2004, two loans totaling \$30 million were approved to provide residents, industries, and small businesses in three towns with improved water supply and sanitation services. The project will benefit about 110,000 people.

Table 2. Azerbaijan: Economic Indicators, 2004–2008

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	950	1,270	1,890	2,550	...
GDP growth (% change per year)	9.3	28.0	34.5	25.4	10.8
CPI (% change per year)	6.7	9.6	8.3	16.7	20.8
Unemployment rate (%)	1.4	1.4	1.3	1.5	1.5
Fiscal balance (% of GDP)	0.1	-0.7	0.4	-0.2	-1.7
Export growth (% change per year)	42.6	104.4	70.1	63.4	74.1
Import growth (% change per year)	31.5	21.4	21.1	14.7	19.4
Current account balance (% of GDP)	-29.8	1.3	17.7	27.3	47.7
External debt (% of GNI)	24.4	15.6	10.9	11.7	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila.
ADB staff estimates.
World Bank. 2009. World Development Indicators Online.

Table 3. Azerbaijan: 2008 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
215.4	–	1.2	–	216.6

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$585.4 million
Cumulative Disbursements (as of 31 Dec 2008) : \$87.9 million

Table 4. Azerbaijan: Cumulative ADB Lending as of 31 December 2008

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	1	22.00	3.76
Energy	1	160.00	27.33
Finance	4	66.00	11.27
Transport and Communications	5	307.40	52.51
Water Supply, Sanitation, and Waste Management	2	30.00	5.12
Total	13	585.40	100.00

^a Total may not add up because of rounding.

In 2005, ADB approved two loans totaling \$52 million for the East–West Highway Improvement Project. The project will rehabilitate 127 kilometers (km) of the Yevlakh–Ganja and Qazakh–Georgian border sections of the highway and 65 km of connecting local roads, as well as support policy reform by strengthening institutional capacity in the sector.

In 2006, ADB started its private sector activities and approved a loan and equity investment to selected private commercial banks totaling \$10 million.

In 2007, ADB approved three loans totaling \$56 million to some leading banks. A \$6 million loan to the Bank of Baku will provide increased access to financing by SMEs. A \$10 million subordinated loan to Bank Respublika will strengthen its capital base, and a \$40 million subordinated loan to the International Bank of Azerbaijan (IBA) will help expand its lending, providing greater financing intermediation in Azerbaijan. In the public sector, ADB approved a \$500 million MFF for the Azerbaijan Road Network Development program, with a \$200 million first tranche to finance the construction of the Masally–Astara Highway.

In 2008, ADB approved a \$160 million loan for the rehabilitation of the two major power transmission lines supplying electricity to the greater Baku area, and a \$55.4 million loan for the improvement of Ganja Bypass road.

Future Directions

In 2008, ADB operations in Azerbaijan will focus on transport, water supply and sanitation, and energy, which is in line with the Government's own development priorities.

Table 5. Azerbaijan: Portfolio Performance Quality Indicators for Sovereign Lending, 2007–2008

Number of Ongoing Loans (as of 31 Dec 2008)	2007 (\$ million)		2008 (\$ million)	
	2007 (\$ million)	2008 (\$ million)	2007 (\$ million)	2008 (\$ million)
Contract Awards/Commitments	30.6	31.8		
Disbursements	14.5	20.8		
Loans at Risk (%)	28.6	–		

– = nil.

Table 6. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008^{a,b}

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People's Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao People's Democratic Republic	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

^a Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

^b Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

Operational Challenges

The key challenges facing Azerbaijan are promoting sustainable economic development in the non-oil sector, improving infrastructure, making social development more inclusive by reducing economic disparities among regions, promoting good governance, and improving the climate for private-sector growth.

ADB also needs to streamline its project processing to harmonize it with the Government's project timetable. ADB interventions will be guided by the CSP, the performance of its existing portfolio, the activities of other development partners, and the institutional framework. A new project will only be undertaken if it is fully supported by executing agencies and is socially acceptable to the community.

Partnership

In May 2005, ADB signed a joint declaration with the Government of Azerbaijan, the European Bank of Reconstruction and Development, the International Monetary Fund, the United Nations Development Programme, and the World Bank to align country strategies and programs with the Government's new long-term development strategy. Sector working groups, first formed under the State Program on Poverty Reduction and Economic Development, will bring stakeholders together

Table 7. **Azerbaijan: Contractors/suppliers involved in ADB loan projects, 1 January 2004–31 December 2008**

Contractor/Supplier	Sector	Contract Amount (\$ million)
Azerkorpu JSC	Water Supply, Sanitation, and Waste Management	7.98
Alibeyli Sirketi, Ltd.	Water Supply, Sanitation, and Waste Management	6.85
Consortium of Sayli Temir Tikinti, et al.	Water Supply, Sanitation, and Waste Management	6.31
Gemiqaya Sirketi, Ltd.	Water Supply, Sanitation, and Waste Management	5.96
Korpu Bina Tikinti LRC	Water Supply, Sanitation, and Waste Management	2.87
Sheki – Afghan Firm	Water Supply, Sanitation, and Waste Management	2.59
Sharur Irrigation Systems Office	Water Supply, Sanitation, and Waste Management	1.40
Ganja Korpu Construction	Water Supply, Sanitation, and Waste Management	0.96
Garabagh Sutikinti and Shirvan Sutikinti	Water Supply, Sanitation, and Waste Management	0.85
Ajemi Construction–Assembly OJSC	Water Supply, Sanitation, and Waste Management	0.78

Table 8. **Azerbaijan: Top consultants (individual consultants and consulting firms) involved in ADB loan projects, 1 January 2004–31 December 2008**

Consultant	Number of Times Contracted	Contract Amount (\$ million)
AY Consulting, Ltd. with European Consultants	1	3.16
Individual Consultants from Azerbaijan*	5	0.15
Globus-Print, Ltd.	1	0.03
Audit-Lider, Ltd.	1	0.02

* Consultant may have one or more contracts within the period covered.

to provide substantive and coordinated guidance on the Government strategy.

ADB cooperates with civil society organizations to strengthen the effectiveness, quality, and sustainability of the services it provides. For example, in 2006, ADB organized a forum on its development activities in Azerbaijan and its programs on HIV/AIDS. Participants in the meeting included the country's leading civil society groups, as well as representatives from the government sector. The discussions underscored the need for government and civil society groups to work together to address the problem of HIV/AIDS in the country.

Cofinancing and Procurement

Cofinancing operations enable ADB's financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2008, cumulative direct value-added cofinancing for Azerbaijan amounted to \$0.85 million for two technical assistance projects.

A summary of projects with cofinancing from 1 January 2004 to 31 December 2008 is available at www.adb.org/documents/Fact_Sheets/Azerbaijan/cofinancing.asp.

As of 31 December 2008, 10,330 consultant contracts were awarded under ADB loan projects worth \$4.17 billion, of which eight contracts were awarded to consultants from Azerbaijan worth \$3.37 million.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which 46 contracts were awarded to consultants from Azerbaijan worth \$0.39 million.

A summary of procurement contracts awarded to companies and consultants from Azerbaijan for goods and works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Azerbaijan/procurement.asp.

Table 9. **Azerbaijan: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008**

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Azerbaijan*	33	0.29

* Consultant may have one or more contracts within the period covered.

Table 10. **ADB Assistance to DMCs, 2007–2008^a**

	2007 (\$ million)	2008 (\$ million)	Change (%)
Lending	9,965.59	10,494.27	5.3
ADF Sovereign	1,892.84	1,789.56	(5.5)
OCR Sovereign	7,347.48	6,924.48	(5.8)
OCR Nonsovereign	725.27	1,780.23	145.5
Public Sector	10.00	300.00	2,900.0
Private Sector	715.27	1,480.23	106.9
Equity Investments	79.75	123.08	54.3
Grants	672.71	811.37	20.6
Technical Assistance	252.84	274.50	8.6

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Excludes terminated loans, equity investments, technical assistance, and grants.

About Azerbaijan and ADB

Azerbaijan is the 18th largest shareholder among regional members and the 26th largest overall.

ADB Membership

Joined	1999
Shares held	15,736 (0.44%)
Votes	28,968 (0.65%)

Phil Bowen is the Executive Director and **Dereck Rooker-Smith** is the Alternate Executive Director representing Azerbaijan on the ADB Board of Directors.

Faraj Huseynbeyov is the ADB Officer-in-Charge for Azerbaijan. The Azerbaijan Resident Mission (AZRM) was opened in 2004 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. AZRM engages in policy dialogue and acts as a knowledge base on development issues in Azerbaijan.

The Azerbaijan government agency handling ADB affairs is the Ministry of Economic Development.

About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website

www.adb.org/azerbaijan

Asian Development Outlook

www.adb.org/Documents/Books/ADO/2009/AZE.pdf

Annual Report

www.adb.org/Documents/reports/annual_report/2008/

Depository Libraries

www.adb.org/Publications/Depositories/aze.asp