

**AZERBAIJAN****FAZIL ABDULLAYEV, Head of Delegation**

It is a great honor for me to represent the Azerbaijan Republic at the Thirty-Fifth Annual Meeting of the Asian Development Bank (ADB) Board of Governors. I would like to take this opportunity to express a deep gratitude and appreciation to the Government of the People's Republic of China for the warm welcome and hospitality extended to all participants of this annual meeting. I would like to thank the Management of ADB for the excellent arrangements for the meeting.

As a result of successful economic reforms and internal political stability, Azerbaijan has achieved impressive results in macroeconomic performance over the past few years. Azerbaijan's economic performance has been strong in 2001, with more than 9% real gross domestic product (GDP) growth. The growth rates in some non-oil sectors of the economy were as high as 15%, which indicates a very positive trend of the past few years when the growth rates of the non-oil sectors, in particular the agriculture sector, greatly exceeded the growth rate of the oil sector, thereby making the most impact on poverty reduction in Azerbaijan. In comparison, growth in the oil and gas sector in 2001 was modest at about 5%. Inflation (consumer price index) has remained modest at 1.5% year on year by end December 2001 compared with 1.7% a year earlier. The current account has turned into a surplus at 1.9% of GDP during 2001. General fiscal balance position remained comfortable at a 0.7% deficit of GDP in 2001. Essential public spending, including expenditures on education, health, and social protection received a 16% increase in nominal terms in the 2001 budget.

The government restructuring and institutional reforms continued in 2001 marking the establishment of such key government agencies as the Ministry of Economic Development, Ministry of Fuel and Energy, and Ministry of Ecology and Natural Resources, along with the merging, streamlining, and abolition of several other ministries and state committees.

The Government reached an agreement with the International Monetary Fund (IMF) on a new Poverty Reduction Growth Facility program, which was approved by IMF in July 2001. In February 2002, the Executive Board of IMF concluded the Article IV consultation with the Azerbaijan Republic giving very high praise to Azerbaijan's macroeconomic performance.

With the assistance of major international development institutions, in particular ADB, the Azerbaijan Government is currently finalizing the preparation of the National Poverty Reduction Strategy, which is expected to become a strategic program document that would determine the main direction of economic development in Azerbaijan in the years ahead.

Azerbaijan has been a member of ADB for a little over two years. During this time, ADB and the Government of Azerbaijan have worked together in a very good spirit of cooperation to prepare the interim operational strategy and to start the implementation of the country program. The main goal of ADB's assistance to Azerbaijan stems from ADB's poverty reduction strategy. In relation to Azerbaijan, this strategic objective implies, in the first place, the development of the country's non-oil sector. This in turn would greatly depend on the economic development of the regions outside the capital city area, thereby assisting mainly the poor part of the population living in secondary towns and rural areas, in particular the internally displaced people who mainly reside outside of the capital city. In keeping with the Government's and ADB's high priority on poverty reduction, there is now a strong focus on this objective in ADB's present and planned operations in Azerbaijan.

Therefore, the cooperation of ADB with the Azerbaijan Government focuses on the following five priority sectors:

- (i) assistance to internally displaced people,
- (ii) rural development,
- (iii) water supply and sanitation sector development,
- (iv) health sector development, and
- (v) road infrastructure development.

To date, ADB has provided Azerbaijan with five technical assistance grants for \$1.952 million and two grants from the Japan Fund for Poverty Reduction for \$3.3 million. Loan operations have not commenced in Azerbaijan, although ADB will shortly begin implementation of the first project preparatory technical assistance, which will prepare the first loan to Azerbaijan and will finance the development of water supply and sanitation infrastructure in secondary towns.

Along with the country-specific operations, improving regional cooperation has been a prime feature of ADB activities in the Central Asian region, and Azerbaijan recently became a full member of the regional economic cooperation program. ADB's ongoing efforts in this area mainly focus on improving regional cooperation in transport, energy, and trade sectors.

I would like to emphasize once more that Azerbaijan is committed to cooperating within the ADB family to attain development objectives of both national and regional dimensions. We greatly appreciate ADB Management's continuous attention to highly complicated problems of the transitional economies to which Azerbaijan belongs, and we are confident that under the skilful stewardship of President T. Chino, the cooperation of ADB and Azerbaijan that started just over two years ago will eventually develop into a strong and long lasting working partnership to the mutual benefit of all ADB member countries. In conclusion, may I wish all ADB members success and persistence in their development endeavors.