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Azerbaijan: Countercyclical Support Facility Program

Project Name

Countercyclical Support Facility Program

Project Number

50145-001

Country / Economy

- Azerbaijan

Project Status

Closed

Project Type / Modality of Assistance

- Loan
- Technical Assistance

Source of Funding / Amount

Loan 3486-AZE: Countercyclical Support Facility

| Source | Amount |
|----------------------------|---------------------|
| Ordinary capital resources | US\$ 500.00 million |

TA 9259-AZE: Improving Public Sector Efficiency

| Source | Amount |
|-----------------------------------|-------------------|
| Technical Assistance Special Fund | US\$ 1.20 million |

TA 9259-AZE: Improving Public Sector Efficiency (Supplementary)

| Source | Amount |
|-----------------------------------|-----------------|
| Technical Assistance Special Fund | US\$ 100,000.00 |

Strategic Agendas

- Inclusive economic growth

Drivers of Change

- Governance and capacity development
- Knowledge solutions
- Private sector development

Sector / Subsector

- **Finance** / Finance sector development
- **Public sector management** / Public expenditure and fiscal management - Social protection initiatives

Gender

No gender elements

Description

The proposed Countercyclical Support Facility will, in the short term, help the government of Azerbaijan mitigate the significant negative economic impact caused by the crash in oil prices and the recession in the country's trading partners, which has triggered recession in the country. The government's ongoing and planned fiscal stimulus expenditure is providing social assistance programs, creating employment, and promoting inclusive private sector development. The attached TA will facilitate design of structural reforms covering macro fiscal management, state-owned enterprise (SOE) reform, and finance sector development as well as augment capacity of select departments for implementation of the reforms. The medium-term structural reforms could be supported further under a planned policy-based loan in 2017.

Project Rationale and Linkage to Country/Regional Strategy

Sharp economic downturn caused by drop in oil prices. Azerbaijan's economy has been experiencing a series of distresses, which has led to a lower growth rate, fiscal uncertainty, and finance sector instability. Oil prices have fallen sharply, by almost 57% from their peak in 2014 to August 2016. Given that oil and gas revenues account for about 30% of gross domestic product (GDP), 60% of budget revenues, and over 90% of country's exports, the crash in oil prices had a significant negative effect on the economy. All components of GDP experienced a sudden drop including government expenditures, investments, consumption and net exports. GDP growth fell from 2.8% in 2014 to 1.1% in 2015. Azerbaijan entered into recession, with negative GDP growth of 3.0% in the first 7 months of 2016 and a negative 2.4% forecast for 2016. The recession stems from lower hydrocarbon revenues, contraction in public investments (especially construction effecting private sector activity), and a tightened domestic demand. The current account surplus evaporated from 14.0% of GDP at end-2014 to a deficit of 0.4% at end-2015. Lower commodity prices resulted in a 47% decrease in export revenues in 2015, while the inflow of remittances (mainly from the Russian Federation) suddenly dropped by 31% to \$1.2 billion hitting, in particular, the rural population. The currency devaluation of major trading partners put substantial pressure on the national currency manat with a sharp decline in foreign exchange supply. Assets of the State Oil Fund of Azerbaijan (SOFAZ) declined by \$3.5 billion to \$33.6 billion (9.5%) in 2015, limiting the fiscal space for budget transfers and leading to a reduction in economic activities financed by SOFAZ.

Impact

Broad-based inclusive growth sustained (Azerbaijan 2020: Look into the Future)

Project Outcome

Description of Outcome

Expenditures for fiscal stimulus maintained

Progress Toward Outcome

To be assessed.

Implementation Progress

Description of Project Outputs

Measures to provide social safety net to citizens implemented

Measures to facilitate social housing implemented

Measures to create additional jobs implemented

Measures to identify and initiate specific structural reforms for economic diversification implemented

Status of Implementation Progress (Outputs, Activities, and Issues)

To be assessed.

Geographical Location

Nation-wide

Safeguard Categories

Environment

C

Involuntary Resettlement

C

Indigenous Peoples

C

Summary of Environmental and Social Aspects

Environmental Aspects

Categorized as 'C' since the project is not expected to have impacts on Environment.

Involuntary Resettlement

Categorized as 'C' since the project is not expected to have impacts on Involuntary Resettlement.

Indigenous Peoples

Categorized as 'C' since the project is not expected to have impacts on Indigenous Peoples.

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Business Opportunities

Consulting Services

There are no consulting services needed under the loan. Under the attached technical assistance, a total of 18 person-months of international consultancy services and 33 person-months of national consultancy services will be required intermittently. A consulting firm has been recruited and fielded in June 2017. The firm's inception report was received by ADB in September 2017. The interim report was approved in April 2018, while the midterm report was submitted in September 2018.

Procurement

There are no procurement activities required under the loan.

Contact

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Executing Agencies
Ministry of Finance

Timetable

Concept Clearance
21 Jul 2016
Fact Finding
19 Jul 2016 to 27 Jul 2016
MRM
29 Aug 2016
Approval
07 Dec 2016
Last Review Mission
-
Last PDS Update
28 Sep 2018

Funding

Loan 3486-AZE

Milestones

| Approval | Signing Date | Effectivity Date | Closing | | |
|-------------|--------------|------------------|-------------|---------|-------------|
| | | | Original | Revised | Actual |
| 07 Dec 2016 | 08 Dec 2016 | 23 Dec 2016 | 28 Feb 2017 | - | 02 Feb 2017 |

Financing Plan

| Total (Amount in US\$ million) | |
|---------------------------------------|--------|
| Project Cost | 500.00 |
| ADB | 500.00 |
| Counterpart | 0.00 |
| Cofinancing | 0.00 |

Loan Utilization

| | Date | ADB | Others | Net Percentage |
|----------------------------|-------------|--------|--------|----------------|
| Cumulative Contract Awards | 17 Jun 2022 | 500.00 | 0.00 | 100% |

| | Date | ADB | Others | Net Percentage |
|--------------------------|-------------|------------|---------------|-----------------------|
| Cumulative Disbursements | 17 Jun 2022 | 500.00 | 0.00 | 100% |

TA 9259-AZE

Milestones

| Approval | Signing Date | Effectivity Date | Closing | | |
|-----------------|---------------------|-------------------------|-----------------|----------------|---------------|
| | | | Original | Revised | Actual |
| 07 Dec 2016 | 03 Jan 2017 | 03 Jan 2017 | 31 Jan 2019 | 31 Jan 2021 | 01 May 2021 |

Financing Plan/TA Utilization

| ADB | Cofinancing | Counterpart | | | | Total |
|--------------|--------------------|--------------------|----------------------|------------------------|---------------|--------------|
| | | Gov | Beneficiaries | Project Sponsor | Others | |
| 1,300,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,300,000.00 |

Cumulative Disbursements

| Date | Amount |
|-------------|---------------|
| 17 Jun 2022 | 1,256,559.65 |

Project Page <https://www.adb.org/projects/50145-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=50145-001>

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