

Asian Development Bank & Azerbaijan

FACT SHEET

Table 1. Azerbaijan: Development Indicators

Non-MDG	
Population in millions	8.90 (2009)
Annual population growth rate (%)	1.3 (2007–2009)
Adult literacy rate (%)	99.5 (2007)
Percent of population in urban areas	51.9 (2008)
MDG	
Percent of population living on less than \$1.25 a day	<2.0 (2005)
Percent of population living below the national poverty line	11.0 (2009)
Under-5 mortality rate per 1,000 live births	36 (2008)
Percent of population using an improved drinking water source	78 (2006)

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

Sources: ADB. 2010. *Basic Statistics 2010*. Manila.
UNESCO. 2010. Institute for Statistics Data Centre.
World Bank. 2010. World Development Indicators Online.

Despite the worldwide global financial crisis and the fall in international oil prices from 2008 highs, Azerbaijan's economy sustained a strong growth of 9.3% in 2009. With the oil and gas sector accounting for 55% of national gross domestic product, rising oil prices in the second half of 2009 and increased production of hydrocarbons from the Caspian Sea meant the sector remained the major driver of growth.

Azerbaijan continued to be one of the world's top reformers in streamlining business regulations in 2009, 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-ups, a unified property registry, and greater protection for minority shareholders.

The fall in international commodity prices contributed to lower inflation as consumer prices increased by 1.5% in 2009, much lower than in 2008. The Central Bank of Azerbaijan intervened in the foreign exchange market to prevent the manat depreciating amid lower oil prices, thus moderating inflationary pressures in 2009. On the demand side, stable civil service salaries contained inflationary pressures as well.

Recognizing the development challenges, the Government of Azerbaijan has implemented a number of programs to promote sustainable economic development in the non-oil sector, including rehabilitating deteriorated physical infrastructure and reducing disparities among regions.

Relationship with ADB

Azerbaijan has received \$660.4 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 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 played an important role in Azerbaijan's water supply and sanitation sector. A multitranches financing facility (MFF) for the country's water supply and sanitation investment program has marked a new milestone in cooperation between ADB and Azerbaijan.

ADB also provided loans to upgrade major power transmission lines and rehabilitate key road corridors 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 began in Azerbaijan only in 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 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 five towns and 43 villages, support the livelihoods of more than 200,000 people living on 76,790 hectares of floodplains, and 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.

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 began its private sector activities, approving a loan and equity investment totaling \$10 million to selected private commercial banks.

In 2007, ADB approved three loans totaling \$56 million to several 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 the Bank Republika will strengthen its capital base, and a \$40 million subordinated loan to the International Bank of Azerbaijan 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 Masalli–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.

In 2009, ADB approved a \$600 million MFF for the Water Supply and Sanitation Investment Program, with a \$75 million first tranche loan to rehabilitate water and sewage infrastructure in the towns of Goychay and Nakhchivan. The loan will also finance institutional reform and capacity-building activities to ensure efficient and financially viable long-term operations. The investment program will improve the quality, coverage, and continuity of water and sanitation services for about 500,000 people.

Future Directions

In 2010, ADB operations in Azerbaijan will focus on water supply and sanitation, energy, and transport, which is in line with the government's own development priorities.

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.

Table 2. Azerbaijan: Economic Indicators, 2005–2009

Economic Indicator	2005	2006	2007	2008	2009
Per capita GNI, Atlas method (\$)	1,270	1,890	2,710	3,830	...
GDP growth (% change per year)	26.4	34.5	25.1	10.8	9.3
CPI (% change per year)	9.6	8.3	16.7	20.8	1.5
Unemployment rate (%)	1.4	1.3	1.2	1.0	1.0
Fiscal balance (% of GDP)	-0.7	0.4	-0.2	-0.0	-0.7
Export growth (% change per year)	104.4	70.1	63.4	43.8	-31.0
Import growth (% change per year)	21.4	21.1	14.7	25.3	-14.0
Current account balance (% of GDP)	1.3	17.7	27.3	33.7	23.6
External debt (% of GNI)	14.2	10.1	8.7	7.3	...

... = data not available, 0.0 = value is less than half of unit employed, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2010. *Asian Development Outlook 2010*. Manila.

ADB staff estimates.

World Bank. 2010. World Development Indicators Online.

Table 3. Azerbaijan: 2009 Loan, TA, and Grant Approvals (\$ million)

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
75.0	–	1.0	–	76.0

– = nil.

Cumulative Lending (as of 31 Dec 2009) : \$660.4 million

Cumulative Disbursements (as of 31 Dec 2009) : \$146.4 million

Table 4. Azerbaijan: Cumulative ADB Lending as of 31 December 2009

Sector	Loans (no.)	Amount (\$ million)	% ^a
Agriculture and Natural Resources	1	22.00	3.33
Education			–
Energy	1	160.00	24.23
Finance	4	66.00	9.99
Health and Social Protection			–
Industry and Trade			–
Public Sector Management			–
Transport and ICT	5	307.40	46.55
Water Supply and Other Municipal Infrastructure and Services	3	105.00	15.90
Multisector			–
Total	14	660.40	100.00

– = nil, ICT = information and communication technology.

^a Total may not add up because of rounding.

Table 5. Azerbaijan: Portfolio Performance Quality Indicators for Sovereign Lending, 2008–2009

	Number of Ongoing Loans (as of 31 Dec 2009)	
	2008 (\$ million)	2009 (\$ million)
Contract Awards/Commitments	31.8	149.0
Disbursements	20.8	58.5
Loans at Risk (%)	–	–

– = nil.

Note: Totals may not add up because of rounding.

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. Only new projects fully supported by executing agencies and socially acceptable to communities will be undertaken.

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 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 the government and civil society groups to work together to address the problem of HIV/AIDS.

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 2009, cumulative direct value-added cofinancing for Azerbaijan amounted to \$0.85 million for two technical assistance (TA) projects.

From 1 January 1968 to 31 December 2009, contractors and suppliers were involved in 186,281 contracts for ADB loan projects worth \$96.29 billion. During the same period, contractors and suppliers from Azerbaijan were involved in 87 contracts for ADB loan projects worth \$109.06 million.

Table 6. Azerbaijan: Project Success Rates

By Sector	Percentage ^a	No. of Rated Projects/Programs
Agriculture and Natural Resources	100.0	1
Total	100.0	1
By Year of Approval		
2000s	100.0	1

^a Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2009.

Table 7. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2009^{a,b}

Country	No. of Projects	Total ADB Approvals (\$ million)
China, People's Republic of	24	2,188
India	35	2,129
Indonesia	15	919
Philippines	26	768
Pakistan	24	721
Thailand	10	395
Kazakhstan	4	375
Sri Lanka	12	280
Viet Nam	7	280
Bangladesh	8	242
Afghanistan	6	198
Lao People's Democratic Republic	1	100
Azerbaijan	4	66
Nepal	4	59
Georgia	1	25
Papua New Guinea	1	25
Other DMCs	12	62
Regional	38	1,895

DMCs = developing member countries.

^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.

Table 8. Azerbaijan: Contractors/Suppliers Involved in ADB Loan Projects, 1 January 2005–31 December 2009s

Contractor/Supplier	Sector	Contract Amount (\$ million)
Azenco	Energy	61.61
Gemiqaya Sirketi, Ltd.	Water Supply and Other Municipal Infrastructure and Services	9.78
Azerkorpu JSC	Agriculture and Natural Resources	8.00
Alibeyli Sirkati, Ltd.	Water Supply and Other Municipal Infrastructure and Services	6.86
Consortium of Sayli Temir Tikinti, et al.	Water Supply and Other Municipal Infrastructure and Services	6.17
Korpu Bina Tikinti LRC	Agriculture and Natural Resources	2.87
Sheki - Afghan Firm	Agriculture and Natural Resources	2.65
Sharur Irrigation Systems Office	Agriculture and Natural Resources	1.40
Ganja Korpu Construction	Agriculture and Natural Resources	0.96
Garabagh Sutikinti and Shirvan Sutikinti	Agriculture and Natural Resources	0.85

Table 9. Azerbaijan: Top Consultants (Consulting Firms and Individual Consultants) Involved in ADB Loan Projects, 1 January 2005–31 December 2009

Consultant	Number of Times Contracted	Contract Amount (\$ million)
AY Consulting, Ltd. with European Consultants	1	3.17
Audit-Lider, Ltd.	1	0.05
Globus-Print, Ltd.	1	0.03
Individual Consultants	4	0.17

Table 10. Azerbaijan: Top Individual Consultants Involved in ADB Technical Assistance Projects, 1 January 2005–31 December 2009

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants	24	0.23

From 1 January 1968 to 31 December 2009, consultants were involved in 10,945 contracts for ADB loan projects worth \$4.38 billion. During the same period, consultants from Azerbaijan were involved in nine contracts for ADB loan projects worth \$3.41 million.

From 1 January 1968 to 31 December 2009, consultants were involved in 20,087 contracts for ADB TA projects worth \$2.52 billion.

During the same period, consultants from Azerbaijan were involved in 47 contracts for ADB TA projects worth \$0.40 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.

About Azerbaijan and ADB

ADB Membership

Joined 1999

Shareholding and Voting Power

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

Figures are as of 31 December 2008, before the fifth general capital increase process began. The process is ongoing, and the final figures are expected to be available by 31 December 2010. Current subscription levels are available from the Office of the Secretary.

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

Phil Bowen is the Executive Director and **Dereck Rooken-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 Finance.

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 2009, lending volume was \$13.23 billion (93 projects), with TA at \$267.2 million (313 projects) and grant-financed projects at \$1.11 billion (64 projects). In addition, \$3.16 billion in direct value-added loan cofinancing was generated. Over the last 5 years (2005–2009), ADB's annual lending volume averaged \$9.18 billion, with TA averaging \$245.7 million and grant-financed projects \$855.4 million. As of 31 December 2009, the cumulative totals were \$155.94 billion in loans for 2,206 projects in 41 countries, \$5.19 billion for 315 grant projects, and \$3.81 billion for 6,863 TA projects.

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www.adb.org/Documents/Books/ADO/2010/AZE.pdf

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