

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Focus and Key Activities

1. An estimated AZN27 billion is needed to implement the goals set in the Strategic Roadmap on National Economy and Main Sectors of the Economy, Azerbaijan's main strategic document.¹ The road map provides guidelines how to cover the investment needs partly by, among others, attracting external financial sources.

2. Azerbaijan's principle external development partners are the Asian Development Bank (ADB), the World Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank, and the United Nations Development Programme (UNDP). The development partners are concentrated in a few sectors, mainly transport, energy, water supply, private sector development, finance, and public management, as these are the sectors in which the government prefers to borrow. The World Bank provides support for infrastructure (roads and railways), as well as the business environment; agriculture and irrigation services; and education, health, and urban services. The European Bank for Reconstruction and Development primarily focuses on private sector development and the financial sector. UNDP is fostering economic development, environmental sustainability, and better governance. The European Union is supporting infrastructure, public sector management, private sector development, the finance sector, and the environment.

3. Bilateral donors such as GIZ, the Swiss Cooperation Agency (SECO), and the United States Agency for International Development (USAID) are also involved in social economic activity and support public sector management, rule of law, and the finance sector. USAID helped the government establish rule of law and governance by funding community-based projects in 61 communities benefiting more than 94,000 people around Azerbaijan. Funded by SECO, the World Bank helped the government to develop the finance sector, modernize capital markets, pass the law on credit bureaus, and improve the digital payments system. The table summarizes the activities of the major development partners in Azerbaijan.

Development Partner Activities

Development Partner	Project Name	Approval Year	Amount (million)
ADB	Microfinance Sector Development CDTA	2014	\$0.6
	Countercyclical Support Facility Program	2016	\$500.0
EU	Support to SME Development TA	2016	€0.3
IFC	Azerbaijan–Central Asia Financial Infrastructure Project	2016	\$3.1
	Azerbaijan Agri-Competitiveness Project	2016	\$4.0
	Corporate Governance Program and East and Central Asia	2016	\$1.0
SECO	Corporate Governance Program	2012	\$3.6
USAID	Micro Enterprise Support Program	2012	\$1.5
	Socio-Economic Development Activity	2011	\$1.5
World Bank	Capital Markets Modernization Project	2011	\$12.0
	Financial Sector Modernization Program (cofinanced with Swiss Cooperation Agency)	2012	\$4.0

¹ Office of the President of Azerbaijan. 2016. *Strategic Roadmap on National Economy and Main Sectors of the Economy*. <http://static.president.az/pdf/38542.pdf>

Development Partner	Project Name	Approval Year	Amount (million)
	IDP Living Standard and Livelihood Project	2016	\$66.7
	Agricultural Competitiveness Improvement Project	2013	\$34.5

ADB = Asian Development Bank, CDTA = capacity development technical assistance, EU = European Union, IDP = internally displaced person, IFC = International Finance Corporation, SECO = State Secretariat for Economic Affairs, SMEs = small and medium-sized enterprises, TA = technical assistance, USAID = United States Agency for International Development.

Source: Asian Development Bank staff estimates.

4. In December 2016, ADB provided the \$500 million Countercyclical Support Facility Program to Azerbaijan to dampen the negative effects of external shocks attributable to the oil price crash. The program helped the government to maintain social expenditures (social assistance program, social housing, etc.), promote private sector activity, and create short-term employment.

B. Institutional Arrangements and Processes for Development Coordination

5. Development partner activities are coordinated by the development institutions themselves. UNDP leads the overall donor coordination activities, and subsector coordination is led by preselected partners. For example, the European Union oversees public finance, while SECO coordinates private sector projects and USAID is coordinating rule of law and governance projects. The Center for Economic Reforms and Communication under presidential administration initiated sector development coordination on economic reforms, which are prioritized under the Strategic Roadmap of National Economy. Selected ministries commenced donor coordination meetings to discuss ongoing sector activities and future plans. The meetings organized by government agencies add significant value for efficient planning and identification of government needs. The Ministry of Economy is the focal agency to coordinate development partner activities to avoid duplication.

C. Achievements and Issues

6. Programs and projects are well-coordinated between the various development partners through regular meetings and frequent dialogue with the government. ADB and other development partners are open to sharing the information and ADB regularly keeps other partners informed of its activities. Cofinancing is one instrument of joint collaboration with development partners and ADB has received expressions of interest from several development partners on joint financing of investment projects and policy-based programs. KfW has expressed interest in cofinancing subprogram 2 of the proposed Improving Governance and Public Sector Efficiency Program; detailed discussions will start from early 2018.

D. Summary and Recommendations

7. The Government of Azerbaijan welcomes assistance from international financial institutions to solidify ongoing policy reforms that will ensure inclusive growth and contribute to the implementation of the government's policy agenda on economic diversification. Given the government's huge investment needs, there is potential for synergies and complementarities among development partners. The government has been demonstrating strong ownership in donor coordination, with sector ministries and/or state-owned enterprises leading the coordination efforts.