



## Concept Paper

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Project Number: 51059-001  
August 2017

# Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 Azerbaijan: Improving Governance and Public Sector Efficiency Program

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 18 July 2017)

Currency unit	–	Azerbaijan manat/s (AZN)
AZN1.00	=	\$0.5876
\$1.00	=	AZN1.7017

## ABBREVIATIONS

ADB	–	Asian Development Bank
FMSA	–	Financial Markets Supervision Authority
GDP		gross domestic product
MOF	–	Ministry of Finance
SOE	–	state-owned enterprises

## NOTE

In this report, "\$" refers to United States dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 51059-001</b>	
<b>Project Name</b>	Improving Governance and Public Sector Efficiency Program, Subprogram 1	<b>Department /Division</b>	CWRD/CWPF
<b>Country Borrower</b>	Azerbaijan Republic of Azerbaijan	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Economic affairs management		75.00
	Public expenditure and fiscal management		90.00
	Reforms of state owned enterprises		75.00
<b>Finance</b>	Finance sector development		60.00
		<b>Total</b>	<b>300.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Anticorruption Institutional development Organizational development Public financial governance	Some gender elements (SGE)	✓
Partnerships (PAR)	Implementation International finance institutions (IFI)		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguard Categorization</b>	<b>Environment: C Involuntary Resettlement: C Indigenous Peoples: C</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>300.00</b>	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		300.00	
Ordinary capital resources			
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.00</b>	
None		0.00	
<b>Total</b>		<b>300.00</b>	



## I. THE PROGRAM

### A. Rationale

1. The proposed improving governance and public sector efficiency program aims to strengthen governance in the public sector and deepen the financial sector, to help diversify the economy of Azerbaijan. The program will introduce rules-based fiscal planning in government's budget system, improve legal and institutional structures governing state-owned enterprises (SOEs) and help improve access to finance. The programmatic approach and policy-based loan will finance two subprograms implemented during 2017–2019. An approved transaction technical assistance will assist in implementation of the program.<sup>1</sup>

2. With the continued low hydrocarbon prices since mid-2014 and the limited new opportunities for extracting hydrocarbons, the government has faced significant macroeconomic shocks including a massive devaluation of its currency that negatively impacted consumers and financial sector stability. Lower hydrocarbon revenues led to a contraction of public investments and a tightening of domestic demand. Gross domestic product growth fell from 2.8% in 2014 to 1.1% in 2015 and –3.8% in 2016. The massive devaluation of local currency in 2015--with depreciation by over 100%--triggered higher dollarization with 75.2% of deposits in foreign currency at the end of 2016. This created a severe shortage of credit to the private sector, especially in local currency, which declined sharply by 24% in 2016. To cope with these shocks the government focused on short term measures by addressing monetary, fiscal, and financial stability policy issues which ADB supported through a CSF in late 2016. However, as indicated in the CSF it is imperative to remain focused on long term efforts to boost the transition towards a non-oil economy in a sustainable manner.

3. Despite the buoyant growth and substantial drop in the incidence of poverty during the oil boom decade, strategic challenges persist. These challenges mostly stem from the hydrocarbon-based economic structure. First, the heavy dependence on hydrocarbon income pushes the country into a “middle-income trap” that is detrimental to long-term growth. Second, high transaction costs, poor corporate governance, and a weak competitive environment present substantial barriers to the expansion of the small non-hydrocarbon base. To address these challenges, a comprehensive reform agenda has to be initiated encompassing the following key structural issues: (i) public financial management is largely based on a simple inflation-adjusted annual budget making exercise; (ii) a large part of the economy is dominated by inefficient public sector entities; (iii) high cost of financial intermediation is limiting access to finance by the private sector; and (iii) weak legal and institutional frameworks constrain the private sector especially small and medium-sized enterprises.

4. **Large public sector and inefficient fiscal management.** The key deficiencies are: (i) lack of long-term strategic fiscal planning and coordination framework and that aligns national and sectoral strategic objectives and programs; (ii) low effectiveness and capacity of SOEs; (iii) ineffective fiscal policy and public debt management including planning for non-discretionary expenditures like pensions, and (iv) prevalence of large and inefficient SOEs. Azerbaijan ranks at

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<sup>1</sup> The project will be included in country operations business plan 2018-2020 being discussed with the government. TA 9259-AZE: Improving Public Sector Efficiency will assist in implementation of the program. This TA is attached to ADB. 2016. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Azerbaijan Countercyclical Support Facility*. Manila.

42nd percentile on government effectiveness in the Worldwide Governance Indicators.<sup>2</sup> State and consolidated budgets are not based on long-term national and sectoral strategic objectives and programs. There are 10,540 SOEs, of which 18 are classified as large.<sup>3</sup> About 25% of total tax revenues are collected from SOEs and some SOEs receive subsidies despite operating at a loss.<sup>4</sup>

5. Ministry of Finance (MOF) has made impressive improvements in public financial management as reflected in the World Bank's public expenditure and financial accountability assessment.<sup>5</sup> Notwithstanding, there is a need to implement deeper reforms to enforce fiscal discipline, improve the optimization of budget allocations, and enhance efficiency and effectiveness of expenditures. A critical reform to improve the efficiency and accountability of large SOEs is to implement restructuring based on thorough sector analyses, introduce competition and corporate governance reforms, explore opportunities for further privatization and align financial management practices with the international financial reporting standards. All these reforms are necessary to create fiscal space so that the government can enhance investment in critical social and economic infrastructure and facilitate crowding-in of private investment. These reforms will be supported under the proposed program.

6. **Lack of efficient financial sector institutional arrangements.** The financial system depth declined substantially with credit to GDP ratio dropping from 40% in 2015 to 28% in 2016. The key deficiencies of the financial sector are: (i) high dollarization of financial markets; (ii) inadequate liquidity in the banking system and the resultant limited access to finance; (iii) absence of a comprehensive deposit insurance system especially for local currency deposits, (iv) lack of a suitable credit enhancement instrument to stimulate local currency credit to the economy; and (v) absence of a conducive business environment for small businesses to operate. Azerbaijan's financial system is small hence raising funds is costly in the context of the country's exposure to external risks. This is corroborated by the latest Global Competitiveness Report, which cites access to finance as an important factor constraining private business in Azerbaijan.<sup>6</sup> World Bank's Doing Business ranks the country 109th out of 189 countries in terms of access to credit.<sup>7</sup>

7. There is a significant need for implementing reforms to improve access to finance through institutional arrangements that provide cheaper and more efficient financing for private investments. The policy announcements in 2016 towards a flexible exchange rate and financial deepening in local currency bring the development of local currency credit market to the forefront of the financial reform agenda. In this context, the newly created Financial Markets Supervision Authority (FMSA) in 2016 has to play an important role to ensure financial stability of the largest segment of the financial system, i.e. the commercial banks. FMSA, however, needs assistance to establish the required capacity to support government's financial reform agenda.<sup>8</sup>

<sup>2</sup> World Bank. Worldwide Governance Indicators, 2015. <http://data.worldbank.org/data-catalog/worldwide-governance-indicators>

<sup>3</sup> State Statistical Committee. <http://www.stat.gov.az>

<sup>4</sup> Government of Azerbaijan, Ministry of Finance (MOF). 2015. *Budget Package-2015*. Baku

<sup>5</sup> World Bank. 2014. *Azerbaijan Public Expenditures and Financial Accountability (PEFA) Performance Report: Repeat Assessment*. Washington, DC.

<sup>6</sup> World Bank. 2016-2017. *World Competitiveness Report*. Washington, DC. <http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=AZE>

<sup>7</sup> World Bank. 2017. *Doing Business 2017: Equal Opportunity for All. Economy Profile 2017: Azerbaijan*. Washington, DC.

<sup>8</sup> ADB is providing assistance for strengthening FMSA's financial sector supervision capability and capacity to design and implement credit enhancement instruments under TA 9259-AZE: Improving Public Sector Efficiency.



8. The program proposes reforms in public finance, SOEs, and access to credit. This is in line with government's Strategic Roadmap of National Economy, which prioritizes strengthening public institutions, increasing access to finance and efficient public financial management.<sup>9</sup> In line with the country partnership strategy of the Asian Development Bank (ADB), the proposed program will bolster private non-oil economic activity, and help Azerbaijan's transition to a diversified economy.<sup>10</sup> Development partners in Azerbaijan focus mainly on transport, energy, water supply, and financial sector with the World Bank and IMF supporting restructuring of financial supervision. The recently established Center for Economic Reforms and Communication in 2016 under Presidential Administration has now initiated sector development coordination in the priority sectors.

9. **Programmatic approach.** The structural reforms require a long-term time horizon to implement effectively. For example, introduction of a medium-term expenditure framework requires sufficient preparatory and implementation time. A programmatic approach facilitates chronologically sequencing of reforms in a multi-year, explicit framing of required policy actions and objectives. The proposed modality also plays a leveraging and catalyzing role in coordinating technical assistance provided by the development partners. The mission is also coordinating closely with the International Monetary Fund in identifying and sequencing of the policy actions.

## **B. Impacts, Outcome, and Outputs**

10. The program impact will be sustainable and broad-based economic growth facilitated. The outcome will be allocation of domestic resources for enhanced growth opportunities improved. The outputs are (i) rules-based fiscal planning introduced to improve efficiency of public resource utilization, (ii) SOEs restructured to improve legal and institutional arrangements and strengthen private sector participation in economic activities, and (iii) improved access to credit to facilitate economic diversification. The rule based fiscal planning under output 1, is expected to facilitate transparency in budget making and fiscal management. The sectors, tentatively proposed to be covered under output 2, are energy, hydrocarbon, finance and transport.

## **C. Investment and Financing Plans**

11. To effectively support the fiscal consolidation and economic diversification measures, the government has requested policy-based loans for 2017-2018 in the amount of \$600 million equivalent, which will be structured in two subprograms of \$300 million each to finance its reform costs covering three output areas.<sup>11</sup> The loans will be regular loans from ADB's ordinary capital resources.

## **D. Indicative Implementation Arrangements**

12. MOF will be the executing agency of the program. Central Bank of Azerbaijan, FMSA, Ministry of Economy, and MOF are proposed to be implementing agencies.

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<sup>9</sup> Decree of the President of the Republic of Azerbaijan on approval of the "Roadmap on National Economy and Main Sectors of the Economy" dated 09 December 2016.

<sup>10</sup> ADB. 2014. *Country Partnership Strategy, Azerbaijan 2014-2018*. Manila

<sup>11</sup> The detailed cost of adjustments will be identified during the fact-finding mission.

## II. DUE DILIGENCE REQUIRED

13. Due diligence to be carried out during the program preparatory work is summarized as follows:

- (i) **Economic and financial.** Assessment of the economic and financial viability and sustainability of the program will be done as well as evaluating the financial and economic benefits of the proposed policy reforms.
- (ii) **Governance.** Public financial management, procurement, anticorruption, and capacity issues and mechanisms will be agreed with the government as part of the program design.
- (iii) **Poverty and social.** No poverty, social, or gender issues requiring specific attention have been identified. The program impact will indirectly benefit the poor. Gender impacts, if any, will be examined carefully.

## III. PROCESSING PLAN

### A. Risk Categorization

14. Each of the two subprograms is categorized as complex since each loan exceeds the \$50 million threshold.

### B. Resource Requirements

15. The program will be processed by ADB sector staff with expertise in the public and financial sectors. Staff will dedicate an estimated total of 8 person-months to process the program. A staff consultant for 2 person months will evaluate the economic and financial viability of the reforms. An ongoing transaction TA (see footnote 8) is supporting the policy dialog and assisting in the preparation and implementation of the subprograms.

### C. Processing Schedule

16. The proposed processing schedule is presented below.

Milestone	Expected Completion Date
Fact finding mission	September 2017
Management Review Meeting	October 2017
Loan Negotiations	October 2017
Board Discussion	November 2017

Source: Asian Development Bank staff.

## IV. KEY ISSUES

17. The key issues include (i) ensuring the continuation of strong political commitment for key institutional and policy reforms supported by the proposed program; (ii) ensuring the sustainability of key capacity development initiatives; (iii) the continuity of key staff in relevant departments, especially during the program implementation; and (iv) continued adherence to fiscal rules despite volatility in hydrocarbon prices.

## PRELIMINARY DESIGN AND MONITORING FRAMEWORK

<b>Impact the Program is Aligned with</b> Sustainable and broad-based economic growth facilitated <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines<sup>b</sup></b>	<b>Data Sources and Reporting</b>	<b>Risks</b>
<b>Outcome</b> Allocation of domestic resources for enhanced growth opportunities improved.	a. Local currency bank credit increased by at least 30% by 2019 (2016 baseline: 8 billion manat). b. Fiscal outlays to SOEs are reduced to 0.5% of GDP by 2019 (2016 baseline: 1.1% of GDP). c. Public spending from the state budget on capital expenditure increased to at least 9.0% of GDP by 2019 (2016 baseline: 7.3% of GDP).	Budget documents  Annual report of the CBA	Continued commitment of the government toward reform momentum is not sustained.
<b>Output 1</b> Rules-based fiscal planning introduced to improve efficiency of public resource utilization	1a. Government developed a Medium-Term Budget Policy document that includes a fiscal policy statement, a macroeconomic strategy, a statement of fiscal risks, and national spending priorities (2016 baseline: not in place). 1b. Government developed technical specifications for automating budget formulation (2015 baseline: not in place). 1c. Government reorganized the public debt management authority by creating a separate unit for debt recording and reporting (2016 baseline: not in place) 1d. Government operationalized an automated debt management system (2016 baseline: not in place)	1a.-d. Annual Report of the MOF; Budget Documents	Trained staff are not retained in the relevant departments during the entire period of the program, affecting successful completion of various policy actions.
<b>Output 2</b> SOEs restructured to improve legal and institutional arrangements and strengthen private sector participation in economic activities.	2a. Government established performance benchmarks and SOE borrowing limits (2016 baseline: not in place). 2b. Government (i) established a Commission to monitor income and expenditure budgets of large SOEs, (ii) amended the rules related to budget submission; (iii) improved the frequency of monitoring and disclosure of information of budget execution in the large SOEs; (iv) submitted a report on compliance to the Corporate Governance Rules; and (v) operationalized implementation of international financial reporting system/international public sector accounting system in selected SOEs (2016 baseline: not in place).	2a.-b. Annual Report of the Ministry of Economy; Annual Report of the MOF	

Results Chain	Performance Indicators with Targets and Baselines <sup>b</sup>	Data Sources and Reporting	Risks
<b>Output 3</b> Improved access to credit to facilitate economic diversification.	3a. Government approved procedures and guidelines to make the National Fund for Entrepreneurship Support more accessible to small and medium-sized enterprises (2016 baseline: not in place). 3b. Government amended the Civil Code to establish the legal basis of creation and activities of credit bureaus to improve citizen's access to financial services and credit consumer rights (2016 baseline: not in place). 3c. Government/ CBA approved a regulatory and institutional framework for deposit insurance with proper risk based pricing of premiums and coverage ceilings (2016 baseline: not in place).	3a.-c. Annual Report of the CBA; Annual Report of the Financial Market Supervisory Authority	
<b>Inputs</b> ADB: Subprogram 1: \$300 million regular loan from ordinary capital resources (OCR) ADB Subprogram 2: \$300 million regular loan from OCR. Cofinancing: Euro 200 million from KfW of Germany (To be confirmed).			
<b>Assumptions for Partner Financing:</b> None			

ADB = Asian Development Bank, CBA = Central Bank of Azerbaijan, GDP = gross domestic product, MOF = Ministry of Finance, SOE = state-owned enterprise.

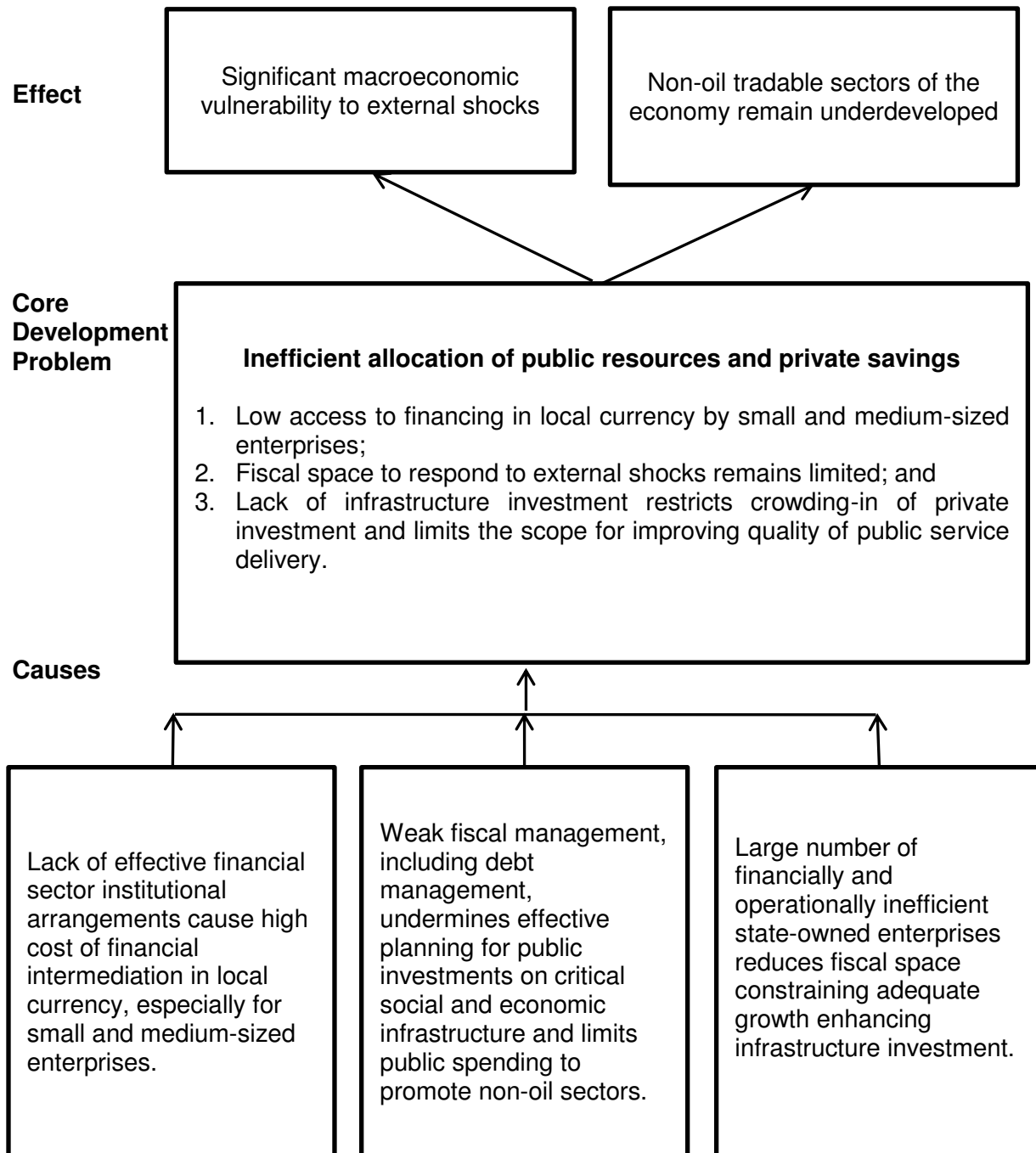
Note: The design and monitoring framework is based on preliminary consultations on the policy matrix with the concerned MOF officials.

<sup>a</sup> Office of the President of Azerbaijan. 2012. *Azerbaijan 2020: Look Into the Future Concept of Development*. [http://www.president.az/files/future\\_en.pdf](http://www.president.az/files/future_en.pdf), p.9.

<sup>b</sup> Targets and baseline information will be confirmed during program preparation.

Source: Asian Development Bank.

## PROBLEM TREE



↑ ↑ Arrows mean 'causality'

## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Azerbaijan	Project Title:	Improving Governance and Public Sector Efficiency Program
Lending/Financing Modality:	Policy-based Loan	Department/ Division:	Central and West Asia Department / Public Management, Financial Sector, and Trade Division

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

To lessen dependency on the oil sector, Azerbaijan is working on 60 state programs and strategies across all sectors. The core program is a Roadmap on National Economy and Main Sectors of the Economy, adopted in December 2016.<sup>a</sup> The Roadmap targets macroeconomic and financial challenges, through balanced development throughout the country, economic diversification and global integration. It prioritizes following sub-sectors: (i) oil and gas, (ii) agricultural production, (iii) production of consumer goods in small and medium-sized enterprises, (iv) heavy industry and machinery, (v) tourism, (vi) logistics and trade, (vii) technical and vocational education training, (viii) social housing, (ix) financial services, (x) communication and information technologies, and (xi) utilities sector (electricity, water, and gas). Together with *Azerbaijan 2020: Look into the Future*, it also emphasizes inclusive growth, poverty reduction, infrastructure development, environmental sustainability, job creation, social protection, education, private sector development, good governance and capacity development, gender equity, and knowledge solutions.<sup>b</sup>

ADB's CPS supports Azerbaijan's transition to a diversified, knowledge-based economy, with sustainable expansion of economic opportunities, particularly in the non-oil economy.<sup>c</sup> The CPS also emphasizes broad access to economic opportunity and high-quality basic services for rural populations, women, and internally displaced persons. The proposed program is listed in the country operations business plan for Azerbaijan (2017–2019).<sup>d</sup>

#### B. Poverty Targeting

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc)

The program will aim to improve long-term financing in local currency to small and medium sized enterprises, enhance fiscal space to respond to external shocks' effects on employment, and improve the efficiency of public sector resource allocation to support infrastructure development and improve service delivery. These outcomes do not have direct impact on poverty reduction, so the program is classified general intervention. However, if successfully achieved, this Program's outcomes are the only sustainable way to promote poverty reduction in Azerbaijan.

#### C. Poverty and Social Analysis

##### 1. Key issues and potential beneficiaries.

Azerbaijan has one of the largest economies in the Caucasus region. However, the country's high economic growth during the last few years has been mostly a result of oil and natural gas exports, the fiscal expenditures that such revenues have enabled, and the private construction activity that rising incomes and bank credit have boosted. GDP per capita increased from \$1,770 in 1999 to \$10,900 in 2010, which placed Azerbaijan among a group of countries like Brazil, Venezuela, or Kazakhstan. However, a recent stark decrease in oil export revenues and the ensuing exchange rate depreciation effects have had, indirectly but powerfully, an impact on living conditions and in the purchasing-power of the population in the last two years. The two-round depreciation has severely hit the borrowers repayment capacity, since significant share of the loan portfolio is denominated in hard currency.

Recession has weakened Azerbaijan's labor market. As declined economic activity caused many state and private enterprises to lay off workers, the number of unemployed rose by 2.5% in 2015 and 14.5% in 2016, after falling by an average of 2.0% annually from 2010 to 2014. It reflects low labor productivity and a shortage of marketable skills. Currently, agriculture employs 36.3% of workforce and contributes to only 6.2% of GDP, while industry employs only 6.9% of workers to produce 47.0% of GDP. To date, the government has relied mainly on nationwide social and economic development programs to combat joblessness. These programs helped cut the unemployment rate from 7.2% in 2005 to 4.9% in 2014, though many of the jobs created were temporary. The unemployment rate subsequently rose to 5.6% at the end of 2016.

Underlying this immediate financial vulnerability to terms-of-trade shocks is a low access to long-term financing in local currency by small and medium sized enterprises, the little ability of the banking sector to withstand the exchange-rate risks and credit quality effects that external trade shocks create, the little fiscal space to respond to such shocks (at least while wholly dependent on the pre-shock stock of the sovereign wealth fund or on external borrowing for funding), and the inefficient and fiscally-costly public sector resource mobilization to key infrastructure service delivery. On the other hand, the more structural vulnerability to shocks that is fundamentally related to the lack of economic diversification and high dollarization of the Azerbaijan economy cannot be addressed, as long as the more immediate sources of financial vulnerability are not tackled.

2. Impact channels and expected systemic changes. The proposed reforms under the program are expected to enhance private investment in the economy to facilitate broad based growth.

3. Focus of (and resources allocated in) the PPTA or due diligence. There is no PPTA, however, TA 9259 is supporting required due diligence as explained in para 13.

4. Specific analysis for policy-based lending. Costs and benefits of the proposed reforms under the program.

## II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Gender relations in Azerbaijan are influenced by many factors, including social and economic difficulties of the transition period (post-Soviet era) and traditional Azeri values and culture. The promotion and protection of gender equality is one of the nine strategic goals of the government's poverty reduction and development program and gender issues are prioritized in education, health, labor market and employment sectors and in programs for internally displaced persons (IDPs) and the refugee population. The ADB CPS (2014–2018) identified key gender issues in water sanitation, transport, energy and finance. The gender impact of the proposed Program will be examined carefully.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes  No

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes  No

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme)  EGM (effective gender mainstreaming)

SGE (some gender elements)  NGE (no gender elements)

## III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The project stakeholders will include the Ministry of Finance, the central bank and the financial supervisory agency.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

Not applicable.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing (M)  Consultation (M)  Collaboration (N)  Partnership (N)

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed?  Yes  No

## IV. SOCIAL SAFEGUARDS

**A. Involuntary Resettlement Category**  A  B  C  FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes  No

<p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?  <input type="checkbox"/> Resettlement plan   <input type="checkbox"/> Resettlement framework   <input type="checkbox"/> Social impact matrix  <input type="checkbox"/> Environmental and social management system arrangement   <input checked="" type="checkbox"/> None</p> <p><b>B. Indigenous Peoples Category</b>   <input type="checkbox"/> A   <input type="checkbox"/> B   <input checked="" type="checkbox"/> C   <input type="checkbox"/> FI</p> <p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples?   <input type="checkbox"/> Yes   <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?   <input type="checkbox"/> Yes   <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities?   <input type="checkbox"/> Yes   <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?  <input type="checkbox"/> Indigenous peoples plan   <input type="checkbox"/> Indigenous peoples planning framework   <input type="checkbox"/> Social Impact matrix  <input type="checkbox"/> Environmental and social management system arrangement   <input checked="" type="checkbox"/> None</p>
<b>V. OTHER SOCIAL ISSUES AND RISKS</b>
<p>1. What other social issues and risks should be considered in the project design?  <input checked="" type="checkbox"/> Creating decent jobs and employment (Medium)   <input type="checkbox"/> Adhering to core labor standards   <input checked="" type="checkbox"/> Labor retrenchment (Low)  <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS   <input type="checkbox"/> Increase in human trafficking   <input type="checkbox"/> Affordability  <input type="checkbox"/> Increase in unplanned migration   <input type="checkbox"/> Increase in vulnerability to natural disasters   <input type="checkbox"/> Creating political instability  <input type="checkbox"/> Creating internal social conflicts   <input type="checkbox"/> Others, please specify _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? The selected program outputs, especially the focus on improved access to credit will facilitate creation of additional jobs.</p>
<b>VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT</b>
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?  <input checked="" type="checkbox"/> Yes   <input type="checkbox"/> No</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis and participation plan during the PPTA or due diligence? Please note that TA 9259: Improving Public Sector Efficiency is providing necessary support to carry out due diligence. This TA was attached to the Countercyclical Support Facility Program approved in 2016.<sup>e</sup></p>

ADB = Asian Development Bank, CPS = Country Partnership Strategy, GDP = gross domestic product, PPTA = project preparatory technical assistance.

<sup>a</sup> Center for Analysis of Economic Reforms and Communication. 2017. *Strategic Road Map on National Economy and Key Sectors of the Economy of Azerbaijan*. [http://ereforms.org/store//media/ekspert\\_yazilari/islahat%20icmali/mart/strateji%20yol%20x%C9%99rit%C9%99si%20-eng1.pdf](http://ereforms.org/store//media/ekspert_yazilari/islahat%20icmali/mart/strateji%20yol%20x%C9%99rit%C9%99si%20-eng1.pdf)

<sup>b</sup> Government of Azerbaijan. 2012. *Azerbaijan 2020: Look into the Future*. Baku.

<sup>c</sup> ADB. 2014. *Country Partnership Strategy: Azerbaijan, 2014–2018*. Manila

<sup>d</sup> ADB. 2015. *Country Operations Business Plan: Azerbaijan, 2016–2018*. Manila.

<sup>e</sup> ADB. 2016. *Proposed Loan and Technical Assistance Grant to the Republic of Azerbaijan: Countercyclical Support Facility Program*. Manila.

Source: Asian Development Bank.