

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Azerbaijan	Project Title:	Improving Governance and Public Sector Efficiency Program, Subprogram 1
Lending/Financing Modality:	Policy-Based Lending	Department/Division:	Central and West Asia Department Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: general intervention

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

In December 2016, the government approved adoption of the Strategic Roadmap on National Economy and Main Sectors of the Economy^a to respond to macroeconomic and financial challenges, and to redouble its efforts to diversify the economy. The road map is designed to foster inclusive economic growth and competitiveness, and ensure increased social welfare based on sustainable economic development. The road map focuses on reform in 11 economic sectors. It sets forth short-term (2016–2020), medium-term (by 2025), and long-term (beyond 2025) strategic goals and defined an action plan. The main components include (i) oil and gas sector development, (ii) agricultural production, (iii) production of consumer goods at small and medium-sized enterprise (SME) level, (iv) heavy industry and machinery, (v) tourism, (vi) logistics and trade, (vii) technical and vocational education, (viii) social housing, (ix) financial services, (x) communication and information technologies, and (xi) utilities (electricity, water, and gas). The government has adopted subplans for each of the subcomponents. Social impacts are set as a main monitoring indicator during implementation of the road map. Efforts will be undertaken to reduce poverty through creation of new jobs, improving education and health services, and access to finance. The road map emphasizes the efficient management of public resources as a key milestone to ensure fiscal stability and reduce dependence on oil incomes. Development of a sound and stable finance sector, as well as ensuring unhampered access of SMEs to the financial market, is determined as one of the major directions of economic reforms. Under the country partnership strategy 2014–2018,^b the Asian Development Bank (ADB) supports the country's transition to a diversified, knowledge-based economy that supports inclusive growth. The program will assist the government to attain its economic reform goals through (i) efficient public sector management, where the program will contribute to rule-based budget formulation and forecasting, and debt and fiscal risk management; (ii) restructuring SOEs, where the program will improve legal and institutional arrangements by strengthening corporate governance and financial management and enabling private sector participation in economic activities; and (iii) facilitating the access to finance and improving the business environment for diversification of the economy, where the program will help the government to develop capital markets, improve deposit insurance scheme, increase efficiency of financial sector (credit bureaus, Credit Guarantee Fund, etc.) and improve ease of doing business.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. **Key poverty and social issues.** According to the State Statistical Committee,^c 4.9% of the population lived below the national poverty line in 2015. Poverty was widespread in 2001, when 49% of the population lived below the national poverty line. It dramatically dropped to 29.3% in 2005, 10.9% in 2009, and to 4.9% in 2015 as Azerbaijan successfully embarked on its development objectives of maintaining macroeconomic stability and poverty reduction. Poverty reduction was driven by strong economic growth, a rise in wages, and successful social protection measures. The social protection index increased from 0.174 in 2005 to 0.286 in 2012.^d This was mainly due to an expansion of social insurance and targeted social assistance program. The welfare indicator used in Azerbaijan is per capita consumption expenditure. Each year, the government establishes the amount of the minimum subsistence assistance for key social-demographic groups of the population. The monthly subsistence level for 2016 was set at AZN136. Azerbaijan also sets necessity criteria (AZN105 in 2016), which is used as a cut-off point for receiving targeted social assistance.

2. **Beneficiaries.** The proposed program will help the government to mainstream its fiscal management and SOE corporate governance, stabilize the finance sector, and improve the business environment through policy reforms. The primary beneficiaries of the program are the people of Azerbaijan, who will benefit through better services of SOEs, efficient fiscal resource allocation, improved public debt management, and increased private sector activity. The beneficiaries will include public sector employees, low-income people, retirees, the unemployed, SME employees, and farmers.

3. **Impact channels.** This program will provide budget support that allows the government to implement its economic reform agenda, achieve inclusive macroeconomic stability built on improved Public Financial Management and an enabling business environment, and generate jobs through private sector growth.

<p>4. Other social and poverty issues. Unemployed people constituted 5% of the overall labor force in 2016. The majority of Azerbaijanis work in low-paying sectors. Only a small segment of the employed workforce holds jobs in the well-paid hydrocarbons industry. There is no social insurance system for the informally and/or self-employed. Unemployment benefits are minimal. Social assistance also needs to be linked to active labor support, including microfinance services and employment programs. Azerbaijan has one of the highest per capita concentrations of Internally Displaced People worldwide. According to the State Statistics Committee, 612,326 Azerbaijanis remain internally displaced, corresponding to 6.5% of the total population. To overcome this situation, the road map ensures sustainable economic development of the non-oil sector by (i) reducing social risks for older age groups, low-income families, and vulnerable segments of the population by developing an effective social protection system; (ii) improving the quality of basic health and education services; (iii) developing social infrastructure; (iv) improving the public utilities system; (v) promoting and protecting gender equality; and (vi) continuing the process of institutional reform and improving good governance.</p> <p>5. Design features. The project will have positive impacts on employment generation, social expenditure sustainability, and private sector development. The program will contribute to the government's fiscal stimulus to moderate the adverse impacts of external shocks on human poverty including unemployment. It will also help the government to identify specific structural reforms for economic diversification.</p>
<p>C. Poverty Impact Analysis for Policy-Based Lending</p> <p>1. Impact channels of the policy reforms. Policy actions supported by the program will require strong ownership by the government to improve PFM and enable strengthening of the business environment. All policies designed under the program will allow the government to maintain macroeconomic stability, foster economic diversification, and strengthen resilience to oil price shocks.</p> <p>2. Impacts of policy reforms on vulnerable groups. Through improved PFM and increased private sector activities, the program will allow the government to better allocate its resources and deliver better services to vulnerable groups. The program will also benefit the poor and vulnerable through increased government capacity to respond to shocks, and more sustainable financing of social protection initiatives, such as improved pension schemes and voluntary pension contribution. The improved access to finance is expected to increase private sector investment and generate new employment.</p> <p>3. Systemic changes expected from the program. The proposed program will be followed by subprogram 2 to help the government to transform the economy into a diversified and dynamic economy that will also support inclusive growth. The reforms proposed under the program will (i) contribute to the reduction of fiscal transfers; and (ii) improve public spending capacity, particularly on health, education, and other social services.</p>
<p style="text-align: center;">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Participatory approaches and program activities. The main stakeholders of the program will be relevant government agencies and development partners. They were consulted during the preparation of the program to develop the policy matrix and harmonize ADB's assistance with government needs and with development partners.</p> <p>2. Civil society organizations. The program does not anticipate civil society participation.</p> <p>3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA): L <input checked="" type="checkbox"/> Information gathering and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>4. Participation plan. Given the scope of the program, no participation plan has been developed.</p>
<p style="text-align: center;">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: no gender elements</p> <p>A. Key issues. Azerbaijan exhibits near gender parity in some spheres (education and literacy rates) but also shows distinct inequalities in terms of women's empowerment overall, especially in women's participation in public and political spheres, and in decision making. Azerbaijan has a Gender Inequality Index value of 0.32, ranking it 78th out of 187 countries in the 2016 index. A broad-based gender equality law, the Law on State Guarantees on Equal Rights for Women and Men, was passed in 2006 and prohibits gender discrimination in all forms and provides guarantees of gender equality in a broad range of spheres, including employment and remuneration. The Labor Code includes provisions on gender equality in some key aspects of employment relations except salary. There is a large gender pay gap. In 2014 the average monthly wage for women was AZN299.7, or only 54.7% of the men's average monthly wage of AZN547.9. A survey conducted by ADB shows that there is disparity between men and women in terms of financial literacy and financial inclusion. Women are more concentrated in lower-paid, public sector activities such as education (72.2% female), health, and social services (78.4%). Women's participation in the managerial level is also low. Since its independence in 1991, the government has shown strong commitment to gender equality in national legislation, including the constitution.</p>

<p>B. Key actions. The policy loan will have no gender elements. However, women are expected to benefit from the program as there is a large female workforce in the public sector, such as in education, health, and services, and the number of women entrepreneurs is growing. By better allocation of fiscal resources, the proposed loan will ensure vulnerable people, particularly women, receive social assistance. An improved pension scheme will ensure equitable treatment of men and women, allowing both guaranteed and voluntary contributions to accumulate sufficient pension assets for adequate income during old age.</p> <p><input type="checkbox"/> Gender action plan <input type="checkbox"/> Other actions or measures <input checked="" type="checkbox"/> No action or measure</p>											
<p>IV. ADDRESSING SOCIAL SAFEGUARD ISSUES</p>											
<p>A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. There will be no land acquisition or involuntary resettlement impacts.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other Actions.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"><input type="checkbox"/> Resettlement plan</td> <td style="width: 50%; border: none;"><input type="checkbox"/> Combined resettlement and indigenous peoples plan</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Resettlement framework</td> <td style="border: none;"><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Environmental and social management system arrangement</td> <td style="border: none;"><input checked="" type="checkbox"/> Social impact matrix</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> No action</td> <td style="border: none;"></td> </tr> </table>		<input type="checkbox"/> Resettlement plan	<input type="checkbox"/> Combined resettlement and indigenous peoples plan	<input type="checkbox"/> Resettlement framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input type="checkbox"/> Environmental and social management system arrangement	<input checked="" type="checkbox"/> Social impact matrix	<input type="checkbox"/> No action			
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<p>B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Key impacts. No impacts on indigenous people.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"><input type="checkbox"/> Indigenous peoples plan</td> <td style="width: 50%; border: none;"><input type="checkbox"/> Combined resettlement plan and indigenous peoples plan</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Indigenous peoples planning framework</td> <td style="border: none;"><input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Environmental and social management system arrangement</td> <td style="border: none;"><input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> Social impact matrix</td> <td style="border: none;"></td> </tr> <tr> <td style="border: none;"><input checked="" type="checkbox"/> No action</td> <td style="border: none;"></td> </tr> </table>		<input type="checkbox"/> Indigenous peoples plan	<input type="checkbox"/> Combined resettlement plan and indigenous peoples plan	<input type="checkbox"/> Indigenous peoples planning framework	<input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework	<input type="checkbox"/> Environmental and social management system arrangement	<input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary	<input type="checkbox"/> Social impact matrix		<input checked="" type="checkbox"/> No action	
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<p>V. ADDRESSING OTHER SOCIAL RISKS</p>											
<p>A. Risks in the Labor Market</p> <p>1. Relevance of the program for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L).</p> <p>L<input type="checkbox"/> unemployment L<input type="checkbox"/> underemployment M<input type="checkbox"/> retrenchment L<input type="checkbox"/> core labor standards</p> <p>2. Labor market impact. The program will have a positive impact on the country's labor market as it will generate employment through increased private sector activity and improved PFM. It will also help to improve social protection and the government to prepare a long-term development strategy.</p>											
<p>B. Affordability. Not Applicable</p>											
<p>C. Communicable Diseases and Other Social Risks</p> <p>1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA):</p> <p><input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA)</p> <p><input type="checkbox"/> Others (please specify) _____</p> <p>2. Risks to people in project area. Not applicable.</p>											
<p>VI. MONITORING AND EVALUATION</p>											
<p>1. Targets and indicators. Given the scope and design of the program, there are no specific indicators targeting the poor. However, targets for addressing labor-related issues are included in the design and monitoring framework.</p> <p>2. Required human resources. Since the modality of financing is policy-based lending, monitoring and evaluation will be carried out by ADB staff only.</p> <p>3. Information in the project administration manual. Not applicable.</p> <p>4. Monitoring tools. No program-specific monitoring tools will be administered.</p>											

^a 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>

^b ADB. 2014. *Country Partnership Strategy: Azerbaijan, 2014–2018*. Manila.

^c State Statistics Committee of Azerbaijan, Database was accessed on 18 September 2017.

^d ADB. 2014. *Updating Social Protection Index: Azerbaijan Country Report*. Manila.