

## 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.