



Technical Assistance Report

Project Number: 55073-001
Transaction Technical Assistance (TRTA)
June 2021

Republic of Azerbaijan: Supporting the COVID-19 Active Response and Expenditure Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 01 June 2021)

Currency unit	–	Azerbaijan manat/s (AZN)
AZN1.00	=	\$0.588235
\$1.00	=	AZN1.700

ABBREVIATIONS

ADB	–	Asian Development Bank
CARES	–	COVID-19 Active Response and Expenditure Support
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
MHI	–	mandatory health insurance
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Azerbaijan and its agencies ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g. FY2021 ends on 31 December 2021.
- (ii) In this report, “\$” refers to United States dollars.

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CONTENTS

	Page
I. THE PROPOSED PROJECT	1
II. THE TECHNICAL ASSISTANCE	1
A. Justification	1
B. Outputs and Activities	2
C. Cost and Financing	5
D. Implementation Arrangements	5
 APPENDIXES	
1. Cost Estimates and Financing Plan	6
2. List of Linked Documents	7

I. THE PROPOSED PROJECT

1. The transaction technical assistance (TA) is proposed to support the implementation of the COVID-19 Active Response and Expenditure Support (CARES) Program, which provides a \$250 million loan as budget support to the Republic of Azerbaijan. Through this TA, the Asian Development Bank (ADB) will support the timely and effective monitoring of the CARES Program as well as the strengthening of the critical public financial management and social security systems that are essential to carry out the government's countercyclical pandemic response measures without jeopardizing fiscal sustainability. The TA's outputs contribute to achievement of the expected development outcome of the CARES Program that the coronavirus disease (COVID-19) outbreak is more effectively managed and its adverse social and economic impacts are reduced.

II. THE TECHNICAL ASSISTANCE

A. Justification

2. The COVID-19 pandemic adversely impacted the economy as a result of the lockdowns in 2020 and early 2021; business closures; a downturn in trade, tourism, and remittances; and drop in consumer demand. Azerbaijan suffered from a twin supply shock with the decline in oil prices and cut in oil production under an agreement with the Organization of the Petroleum Exporting Countries. The International Monetary Fund's projections indicate (i) a gross domestic product (GDP) contraction of 4.3% in 2020 and a rebound in growth to 2.3% in 2021, (ii) widening of the budget deficit–GDP ratio to 6.4% in 2020 and 5.2% in 2021 from a surplus of 8.2% in 2019, and (iii) a rise in unemployment rate to 6.5% in 2020 and 5.8% in 2021 from 4.8% in 2019.¹ To mitigate the impact of the pandemic, the government implemented countercyclical pandemic response measures totaling AZN3.5 billion (\$2.06 billion) in 2020 and AZN3,014.6 million (\$1,773.2 million) in 2021. These measures aim at enhancing the health care system, expanding social protection, and supporting macroeconomic stabilization and job creation.

3. The COVID-19 pandemic has not only negatively impacted health care system capacity and exposed its weaknesses, but also constrained fiscal and debt management capacity and tested the effectiveness of the social security system. Although Azerbaijan had been successfully recovering from the 2015–2016 recession and implementing debt and fiscal management reforms, the COVID-19 crisis and oil price shock have increased the fiscal risks because of increased expenditures, a sharp fall in revenues, and growing operational losses from state-owned enterprises. As a result, implementation of the fiscal rule on State Oil Fund of Azerbaijan transfers and budget expenditures had to be temporarily frozen until 2022. Although public debt in Azerbaijan is low, additional vigilance is now required to monitor risks and ensure that the targets of the medium-term debt management strategy and fiscal consolidation efforts are not derailed.

4. In addition to supporting the timely and effective monitoring of the CARES Program implementation, the proposed TA will help the government enhance the fiscal and debt management systems as well as strengthen the social security system, recently introduced mandatory health insurance, and gender-based targeting and service delivery to effectively cover the poor and vulnerable population when poverty incidence and unemployment are on the rise. The TA will provide policy advice and capacity building.²

¹ Country Economic Indicators (accessible from the list of linked documents in Appendix 2).

² The TA first appeared in the business opportunities section of ADB's website on 5 March 2021. The TA is not included in ADB. 2020. [Azerbaijan: Country Operations Business Plan, 2021–2023](#). Manila.

B. Outputs and Activities

Table 1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
<p>1. CARES Program implementation monitored and reported on time</p>	<p>By 30 June 2022</p>	<p>Objective. This output aims to (i) monitor the progress of CARES Program implementation and achievement of the indicators in the DMF and GMM, and (ii) provide capacity building on gender-based tracking of COVID-19-related expenditures and public grievance redressal mechanisms during crises.</p> <p>Delivery method. Quarterly reports, a PCR, and capacity building workshops.</p> <p>Implementing agency. MOF</p> <p>Key activities are:</p> <p>1.1 Prepare quarterly reports and a PCR for monitoring the implementation of the CARES Program, covering (i) macroeconomic and financial sector conditions; (ii) implementation of pandemic response measures; (iii) expenditures and flow of funds under the state budget; (iv) reporting of indicators under the DMF and GMM of the CARES Program; and (v) tracking of beneficiaries of the CARES Program, with gender indicators and sex-disaggregated data.</p> <p>1.2 Conduct three training workshops on methods to (i) strengthen reporting on and monitoring and evaluation of budgetary funds spent for COVID-19 measures and other emergencies; (ii) improve utilization of sex-disaggregated databases for tracking and targeting of beneficiaries for state budgetary expenditures, particularly in social sectors; and (iii) strengthen transparency and public communication and public grievance redressal mechanisms during times of crises and emergencies.</p>
<p>2. National fiscal management capacity improved</p>	<p>By 30 June 2022</p>	<p>Objective. This output will help strengthen rule-based fiscal planning and management during crises, as well as gender-responsive budgeting under the MTEF.</p> <p>Delivery method. Analytical studies leading to the preparation of a policy paper and an action plan in digital format; the findings will be disseminated through a capacity building workshop.</p> <p>Implementing agency. MOF</p> <p>Key activities are:</p> <p>2.1 Review existing fiscal management practices during crises and emergency situations.</p> <p>2.2 Develop policy options to strengthen responsiveness of government's fiscal management system, institutional set-up, and efficient fiscal coordination mechanisms during crises.</p> <p>2.3 Develop policy recommendations on the government's fund-raising instruments; optimization of government</p>

Major Outputs	Delivery Dates	Key Activities with Milestones
		<p>expenditures, including SOEs; debt management tools; liquidity management; timely cash disbursement system; and other investments under rule-based fiscal planning and management during crises.</p> <p>2.4 Enhance gender-responsive budgeting under MTEF.</p>
3. National debt management system strengthened	By 30 June 2022	<p>Objective. This output aims to strengthen the national debt management system, considering the medium- and long-term impact of the COVID-19 pandemic on state finances; contingent liabilities, in particular for SOEs; and accumulation of external and domestic public debt.</p> <p>Delivery method. Analytical studies leading to the preparation of a policy paper and an action plan in digital format. The findings will also be disseminated through a capacity building workshop.</p> <p>Implementing agency. Debt Management Agency of the MOF</p> <p>Key activities are:</p> <p>3.1 Review the legal framework to identify gaps related to external and domestic borrowing and contingent liabilities, including from SOEs.</p> <p>3.2 Develop policy recommendations to strengthen public debt management focusing on contingent liabilities.</p> <p>3.3 Review government's debt management strategy and recommend tools and techniques to monitor and evaluate the implementation of the strategy.</p>
4. Social security system strengthened	By 30 June 2022	<p>Objective. In support of the expansion of the social safety nets under the government's countercyclical pandemic response measures, this output aims to (i) identify policy options to optimize and effectively target the social security system, particularly for socially vulnerable population under a fiscally sustainable framework; (ii) prepare models for the integration of the social security services; and (iii) strengthen the legislative framework.</p> <p>Delivery method. Analytical studies leading to the preparation of a policy paper and an action plan in digital format. The findings will also be disseminated through a capacity building workshop.</p> <p>Implementing agency. Ministry of Labor and Social Protection of the Population</p> <p>Key activities are:</p> <p>4.1 Review and assess the existing social security system and services, including the pension system; summarize its main features in terms of inclusiveness; and identify gaps and challenges, including those that are gender-based.</p> <p>4.2 Review international treaties on social protection and services to which Azerbaijan is a party, as well as country-relevant international experience on social services.</p> <p>4.3 Recommend tailored policy options to (i) optimize and effectively target the social security system under a fiscally</p>

Major Outputs	Delivery Dates	Key Activities with Milestones
		<p>sustainable framework, and (ii) enhance the modalities of social services and their gender-responsive delivery mechanisms.</p> <p>4.4 Prepare an action plan to implement the recommendations for the design of the social security system, including best practices on (i) incorporating the needs of the socially vulnerable population, especially women, people at risk of poverty, and those in the informal sector, and (ii) ensuring equal participation of the socially vulnerable population.</p> <p>4.5 Review possible models for integration of the social security services and prepare a concept for the electronic mapping of these services, including an action plan.</p> <p>4.6 Review the legislation and recommend amendments to strengthen the legislative framework to increase (i) the quality and inclusiveness of social security services and benefits, especially for women and vulnerable populations; and (ii) the efficiency of the service providers.</p>
5. Mandatory health insurance system strengthened	By 30 June 2022	<p>Objective. In support of the MHI (introduced in 2020), this output aims to identify policy options to (i) optimize and effectively target MHI, including expanding coverage for the socially vulnerable population and people employed in the informal sector under a fiscally sustainable framework; and (ii) enhance health care service modalities and gender-sensitive delivery mechanisms.</p> <p>Delivery method. Analytical studies leading to the preparation of a policy paper and an action plan in digital format; the findings will also be disseminated through a capacity building workshop.</p> <p>Implementing agencies. The Ministry of Health and the State Agency for Mandatory Health Insurance</p> <p>Key activities are:</p> <p>5.1 Review and assess the recently launched MHI system, summarize its main features in terms of inclusiveness, and identify gaps and challenges in its implementation.</p> <p>5.2 Based on the analysis, recommend policy options to improve MHI governance and management.</p> <p>5.3 Recommend tailored policy options and methodologies to optimize and effectively target MHI, including expanding coverage for the socially vulnerable population and people in the informal sector under a fiscally sustainable framework.</p> <p>5.4 Provide recommendations to enhance health care service modalities, including performance monitoring, gender-sensitive delivery mechanisms, and use of IT-based platforms, and prepare an action plan to implement the recommendations, including international best practices.</p>

CARES = COVID-19 Active Response and Expenditure Support, COVID-19 = coronavirus disease, DMF = design and monitoring framework, GMM = gender monitoring matrix, IT = information technology, MHI = mandatory health insurance, MOF = Ministry of Finance, MTEF = medium-term expenditure framework, PCR = program completion report, SOE = state-owned enterprise.

Source: Asian Development Bank.

C. Cost and Financing

5. The TA is estimated to cost \$260,000, of which \$250,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, office space and facilities for consultants, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

6. ADB will administer the TA. ADB's Central and West Asia Regional Department will select, supervise, and evaluate consultants, where applicable. The Ministry of Finance will be the executing agency. The TA is expected to be implemented from 1 July 2021 to 30 June 2022. The Ministry of Finance and its Debt Management Agency, the Ministry of Labor and Social Protection of the Population, the Ministry of Health, and the State Agency for Mandatory Health Insurance will be the implementing agencies. The implementation arrangements are provided in Table 2.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	1 July 2021–30 June 2022		
Executing agency	MOF		
Implementing agencies	MOF and its Debt Management Agency, Ministry of Labor and Social Protection of the Population, Ministry of Health, and the State Agency for Mandatory Health Insurance		
Consultants	To be selected and engaged by ADB		
	Individual: ICS	International (6 person-months)	\$140,100
	Individual: ICS	National (8 person-months)	\$79,200
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, ICS = individual consultant selection, MOF = Ministry of Finance, TA = technical assistance.

Source: Asian Development Bank.

7. **Consulting services.** ADB will engage individual consultants comprising 6 person-months of international consultants and 8 person-months of national consultants following ADB's Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. The terms of reference for consultants are accessible from the link in Appendix 2. Resource persons may be recruited to share knowledge during capacity development workshops.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem ^b	
i. International consultants	140.1
ii. National consultants	79.2
b. Out-of-pocket expenditures	
i. International travel ^b	16.0
ii. Reports and Communication ^c	3.0
2. Training, Seminars, and Conferences ^d	4.0
3. Miscellaneous TA Administration ^e	3.0
4. Contingencies	4.7
Total	250.0

Note: The technical assistance (TA) is estimated to cost \$260,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office space and facilities for consultants, and other in-kind contributions. The value of government contribution is estimated to account for 3.8% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Use of travel-related expenses is subject to approval of travel by TA supervising unit.

^c Includes expenses for report production, transmission and translation incurred by consultants.

^d Includes payment for facilitators, travel of ADB staff acting as resource persons, venue rental and other logistics costs, participants' per diem, and interpretation. ADB (Budget, Personnel, and Management Systems Department; and Strategy and Policy Department). 2013. Use of Bank Resources: Regional Technical Assistance and Technical Assistance vs. Internal Administrative Expenses Budget. Memorandum. 26 June (internal).

^e Includes meeting expenses, translation of government laws, decrees and other documents, and interpretation during meetings.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55073-001-TARreport>

1. Terms of Reference for Consultants