



# Country Strategy and Program Update

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January 2006

Azerbaijan (2006)

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 30 December 2005)

Currency Unit	–	manat/s (AZM)
AZM1.00	=	\$0.000218
\$1.00	=	AZM4,591

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
CSP	–	country strategy and program
CSPU	–	country strategy and program update
EBRD	–	European Bank for Reconstruction and Development
GDP	–	gross domestic product
HIV/AIDS	–	human immunodeficiency virus/acquired immune deficiency syndrome
IDP	–	internally displaced person
IMF	–	International Monetary Fund
IOS	–	interim operational strategy
MDG	–	Millennium Development Goal
NBA	–	National Bank of Azerbaijan
OCR	–	ordinary capital resources
PPTA	–	project preparatory technical assistance
PRGF	–	poverty reduction and growth facility
SPPRED	–	State Program on Poverty Reduction and Economic Development
SPSEDR	–	State Program on Social-Economic Development of the Regions
TA	–	technical assistance
UNDP	–	United Nations Development Programme
UNICEF	–	United Nations Children's Fund

## NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.
- (iii) The Government has replaced the national currency unit as of 1 January 2006. One new manat is equivalent to 5,000 old manat. However, all local currency figures in this report are in old manat.

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## I. CURRENT DEVELOPMENT TRENDS AND ISSUES

1. Azerbaijan stands at a critical juncture. On the one hand, the size of the economy may triple within the next 5 years as various oil sector investments begin to bear fruit. On the other, poverty rates remain high and economic opportunities are unevenly spread. Azerbaijan must contend with its post-Soviet legacy—collapse of the industrial base, deterioration of physical infrastructure and social services, and lingering environmental damage. The oil windfall has raised the expectations of the population, are high, placing pressure on the Government to increase spending. The threat of Dutch disease<sup>1</sup>—with its deleterious effects on the nonenergy sectors of the economy—looms. Moreover, while some members of the Government champion the structural reforms needed to achieve broad-based growth, resistance to reform remains. The main development challenge is ensuring the windfall from the oil sector benefits the population evenly, without undermining macroeconomic stability.

### A. Recent Political and Social Developments

2. Following the 2003 presidential elections, in which Ilham Aliyev was elected, thus succeeding his late father Heydar Aliyev, opposition parties staged a protest against voting irregularities. The protest turned violent and led to the arrest of several opposition party leaders. Three key opposition parties then chose to boycott the December 2004 municipal elections, ensuring a landslide victory for pro-Government candidates. Encouraged by recent regime changes in the Kyrgyz Republic, Georgia, and Ukraine—as well as international pressure on the Government to hold fair elections—the opposition took a different tack with respect to the 6 November 2005 parliamentary elections, staging a number of rallies in Baku and other cities during the run-up to the elections. These protests were met at times by pro-Government rallies.

3. The majority ruling party, Yeni Azerbaijan, was the runaway winner in the November elections, taking 63 seats in the 125-seat parliament, as compared with the 10 seats won by the opposition, with the balance shared by smaller parties and independent candidates. International observers said the election did not meet democratic standards, but noted some progress in comparison with previous elections. In response to charges of fraud, election officials ordered re-runs in several constituencies, annulled the results in other districts, and are conducting other investigations. While there were some violent incidents during the election period, and opposition protests continue, the political outlook in Azerbaijan remains relatively stable. Independent surveys suggest most of the population supports the Government. However, unmet expectations of an improved quality of life could undermine that support. Moreover, to ensure its continued control while bringing the structural reform agenda forward, the leadership must maintain the delicate balance within the ruling party between those who embrace change and those who adhere to the status quo.

4. Fighting between Azerbaijan and Armenia over Nagorno-Karabakh ended in a ceasefire in 1994, with almost 20% of Azerbaijan's territory occupied and more than 900,000 Azerbaijani citizens displaced. The ceasefire still holds—although outbreaks of fighting along the border are common—but the countries have yet to resolve the status of this enclave located within the territory of Azerbaijan. Public opinion polls cite resolving the conflict as the country's most pressing problem, as resumption of armed hostilities remains a genuine threat. Azerbaijan's

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<sup>1</sup> Dutch disease is the phenomenon where a booming export good leads to the deindustrialization of nonbooming sectors through an appreciation of the real exchange rate (making the nonbooming sectors' exports less competitive) and by raising factor or input costs. This heightens the country's vulnerability to shocks as it becomes increasingly dependent on the booming sector. For a detailed analysis of the Azerbaijan case, see IMF. 2004. *Managing Oil Wealth: The Case of Azerbaijan*. Washington, DC.

military spending doubled to \$300 million in 2005, and is expected to double again in 2006, to \$600 million. Negotiations with Armenia have picked up recently, and there have been meetings on the sidelines of international meetings between the two countries' presidents. While both sides have reported progress in the negotiations and seem willing to compromise, no solution to the conflict appears imminent.

5. The Government has articulated its development priorities in two key strategy papers: the State Program on Poverty Reduction and Economic Development (SPPRED) 2003–2005 (Azerbaijan's national poverty reduction strategy), and the State Program on Social-Economic Development of the Regions (SPSEDR), approved in February 2004. SPPRED acknowledges that redefining the role of local government in order to promote regional development is a key institutional reform if poverty is to be reduced,<sup>2</sup> a theme that is expanded on in SPSEDR. However, the ambitious program in SPSEDR, which aims to promote more geographically balanced economic development, is not fully integrated with the development program outlined in SPPRED. As 2005 is the final year of SPPRED, the Government is preparing a follow-up 10-year poverty reduction strategy, based on achievement of country-specific targets linked to the Millennium Development Goals (MDGs). Appendix 1, Table A1.1, shows the country's progress toward the MDGs. The new poverty reduction strategy will need to incorporate the principles of SPSEDR to provide continuity for the state's development strategy. In the May 2005 annual review of SPPRED, the Asian Development Bank (ADB) and other donors agreed to support the Government in developing and implementing the new poverty reduction strategy. As part of this commitment, ADB approved technical assistance (TA) to the SPPRED secretariat to help prepare the new strategy.<sup>3</sup>

## **B. Economic Assessment and Outlook**

6. Azerbaijan's impressive growth continued through 2004 (Appendix 1, Table A1.2) and into 2005. Real gross domestic product (GDP) expansion, which averaged 10.6% per annum for the last five years, accelerated to 21.8% during the first 9 months of 2005 (compared with the same period in the previous year), as oil sector investments shifted into production. The first phase of the Azeri–Chirag–Gunashli oil fields began production during the first quarter. Growth is expected to further accelerate in the medium term, as the Baku–Tbilisi–Ceyhan oil pipeline releases its first shipments in early 2006 (the filling of the pipeline with crude oil began in May 2005) and the Shah–Deniz gas fields will begin production in 2006. Growth in finance, transport, trade, and construction has also been strong—benefiting in part from the oil sector boom—but agriculture growth is slowing.

7. The oil boom is reflected in Azerbaijan's external accounts as well. High world oil prices in 2004 led to a trade surplus of \$161 million. Further world oil price increases, coupled with greater production, accelerated export growth in 2005. Merchandise exports reached \$2.8 billion in the first half of 2005—a 68% jump from the same period in the previous year—of which oil and gas exports accounted for almost 90%. In contrast, imports, mainly capital goods for the oil sector, increased by 37%. The current account deficit of 30% of GDP in 2004 should begin to narrow in 2005. The current account deficit of \$678 million in the first half of 2005 was 47% lower than for the same period in 2004, and the expanded oil production only came online toward the end of the first quarter.

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<sup>2</sup> The term “region” in the Azerbaijan context refers to both rural and urban areas outside Baku, the capital city.

<sup>3</sup> ADB. 2005. *Technical Assistance to the Republic of Azerbaijan for Participatory Strategy Development and Implementation for Achieving the Millennium Development Goals*. Manila.

8. With the large inflow of foreign exchange from oil exports, the key challenge for macroeconomic management has been maintaining price stability. The National Bank of Azerbaijan (NBA) attempted to avoid a nominal appreciation of the manat in 2004; however, this led to the unsterilized accumulation of foreign assets and consequently to a rapid expansion of the money supply. Increases in administered prices, such as retail fuel prices, in the last quarter of 2004 exacerbated the problem. With the thin treasury bill market constraining the use of open market operations, the NBA turned to issuing its own bonds to mop up excess liquidity, but this was insufficient. By October 2004, the change in the consumer price index compared with the same month in the previous year had reached double digits. As inflation accelerated (peaking at 13.9% in April 2005), the NBA took more aggressive action. It allowed the manat to appreciate (by 6.6% from end-December 2004 to end-September 2005) and raised the refinancing rate three times (from 7.0% to 9.0%) in 2005. Although inflation has begun to decelerate, consumer prices in September 2005 were 11.5% higher than in September 2004.

9. The Government revised its expenditure plans upward for 2005, as oil-related revenues exceeded expectations. Revenues in the first 8 months of 2005 grew by 38% compared with the same period in 2004, while expenditures expanded by 47%. In fact, there was a small fiscal surplus in the year to August 2005, but most spending tends to occur in the fourth quarter of the year as arrears are cleared. Of growing concern is the planned 70% increase in the public budget for 2006, which could aggravate inflationary pressures or lead to more rapid appreciation of the manat. The anticipated large capital expenditure programs of the larger state-owned enterprises, and spending for major infrastructure projects by the State Oil Fund, may further undermine price stability and deter investment in and development of the non-oil economy.

10. In July 2005, the Government successfully completed the final review of the poverty reduction and growth facility (PRGF) of the International Monetary Fund (IMF). While the program conditions were largely fulfilled, the Government chose not to draw down the final \$18.8 million tranche in view of the country's strong balance of payments situation. While progress was made toward macroeconomic stabilization under the IMF program and its predecessors, the record on structural reforms was mixed. The IMF and the Government will discuss a possible successor arrangement during a PRGF review mission in December 2005, to help cement the gains in macroeconomic management and promote further structural reforms.

11. Azerbaijan's external debt repayment capacity is very strong. External debt to GDP was approximately 20.0% in 2004, and the debt service ratio an estimated 3.6% of exports of goods and nonfactor services during the same period. In November 2004, Fitch Ratings upgraded Azerbaijan's sovereign rating to "BB", one notch below investment grade, from "BB-" for long-term foreign currency and local currency credit. The "BB" rating was reaffirmed in December 2005. Fitch has provided sovereign ratings for Azerbaijan since 2000 and the country's rating has improved steadily. These positive trends are expected to accelerate in the medium term as the major oil sector investments come online, despite the Government's ambitious public investment program.

### **C. Implications for Country Strategy and Program**

12. Since Azerbaijan became a member in 1999, ADB operations there have been guided by an interim operational strategy (IOS)<sup>4</sup> rather than a full country strategy and program (CSP). The IOS identified two areas for ADB operations: (i) direct assistance to the poor, which was narrowly focused on assistance to internally displaced persons (IDPs) and refugees from

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<sup>4</sup> ADB. 2000. *Economic Report and Interim Operational Strategy for Azerbaijan*. Manila.

the Nagorno–Karabakh conflict; and (ii) development outside the oil sector, targeting regional economic growth. Specifically, ADB support was aimed at assistance for IDPs, agriculture and rural development, social infrastructure, and transport. While this emphasis is in line with the Government's strategies, much has changed since the IOS was created. ADB's working relationship with the Government has been steadily improving, and Azerbaijan's macroeconomic outlook has become more positive. The current program must respond to this changing environment.

13. Despite its oil-driven economic growth, Azerbaijan's development needs are tremendous. Increasingly, the Government is recognizing ADB not only as a source of financing, but of knowledge for policy and structural reforms, strategy implementation, innovative project design, and sound implementation. ADB's forward lending program and support for capacity development is helping to establish the conditions for the country's sustainable long-term development. Its assistance provides exposure to best practices in social safeguards, procurement, and project implementation that will enhance the Government's capacity to deliver its public investment program. The opening of ADB's resident mission in Baku in 2004 reinforced ADB's relationship with the Government and other development partners.

14. At the time the IOS was prepared, Azerbaijan was only beginning to recover from the economic contraction of the mid-1990s. ADB took a conservative view of the medium-term growth prospects given the uncertainties surrounding oil sector investments.<sup>5</sup> Although the country was classified as B1, the expectation was that the bulk of ADB's support would come from concessional Asian Development Fund (ADF) resources and that nonconcessional ordinary capital resources (OCR) would be mainly for revenue-generating projects (to ensure the country's foreign debt repayment capacity was not overly burdened). Since then the country has maintained very low levels of foreign borrowing—and much of that on concessional terms—while sustaining growth rates in excess of 10% per year. As the oil sector investments shift into production, growth rates will accelerate further in the near term and the people are expecting to see some tangible benefits from the oil windfall. ADB can help the Government to realize those aspirations by providing expertise to support the national development program.

15. Given the country's solid debt repayment capacity and ADB's maturing working relationship with the Government and other stakeholders, ADB can consider increasing the level of its lending program. While the level of concessional lending from ADB is determined by a performance-based allocation formula, an assessment of Azerbaijan's repayment capacity<sup>6</sup> shows that it can prudently increase its level of nonconcessional borrowing. However, the shift toward less concessional financing will necessitate an adjustment in the emphasis of ADB's program. The Government has indicated its willingness to use OCR-financing for projects in transport, energy, and water supply and sanitation. The forward program envisages a larger ADB presence in roads and water supply and sanitation than the pipelines shown in previous country strategy program and updates (CSPUs). ADB will also address areas of the energy sector where other development partners are not active and that are consistent with ADB's environmental assessment,<sup>7</sup> namely renewable energy and gas supply in underdeveloped regions to bring much needed power and heating to the poor. In addition, ADB support will be provided through its private sector operations to support privatization or private entities in key economic sectors. While private sector investments will need to be evaluated on a case-by-case

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<sup>5</sup> The country classification paper for Azerbaijan stated, "limitations of the drilling infrastructure and lower-than-expected finds of oil suggest that oil and gas production will not increase substantially until 2008." ADB. 2001. *The Country Classification of Azerbaijan*. Manila (p. 5).

<sup>6</sup> ADB. 2004. *Azerbaijan Reassessment of Debt Repayment Capacity*. Manila.

<sup>7</sup> ADB. 2005. *Azerbaijan Environmental Assessment*. Manila.

basis, those that complement public sector activities—such as water treatment and supply, transportation, energy generation and distribution, and finance—are of particular interest.

16. ADB's experience providing assistance in support of internally-displaced persons (IDPs) suggests a broader approach should be taken. Poverty in the regions is not solely linked to the conflict. Moreover, at the time the IOS was prepared, the municipalities—elected local government units—had just been established but were not yet functional. To address poverty in the regions more effectively, ADB's assistance must help to build the capacity of local institutions to realize the Government's policy of decentralization and local empowerment. The planned assistance for social infrastructure will be broadened to provide this support to regional towns, while earmarking funds for IDPs as well. Dialogue with the Ministry of Education has highlighted the need for investment in basic education and led ADB to focus more specifically this area. However, despite the increased lending pipeline, the agriculture and rural development sector will not be part of the forward assistance pipeline. The proposed operational sectors and policy focus of the 2005–2006 program are presented in Appendix 1, Table A1.8.

17. While the pipeline of lending and nonlending assistance (Appendix 1, Tables A1.9 and A1.10) is a result of ongoing discussions with the Government on its priorities for ADB support, this CSPU covers only the 2006 pipeline. A full CSP will be prepared in 2006 at the same time as the Government's new 10-year national poverty reduction strategy. The proposed sectors of intervention will be further refined, with sector road maps providing explicit linkages to a results framework. ADB will carry out additional work on the education, energy,<sup>8</sup> transport,<sup>9</sup> urban development, and water supply and sanitation sectors. The CSP initiating paper will be prepared in the second quarter of 2006. The initiating paper will be discussed with the Government and presented informally to ADB's Board of Directors to seek its guidance on the planned sector focus of operations before the CSP is finalized.

## II. IMPLEMENTATION OF THE INTERIM OPERATIONAL STRATEGY

### A. Progress in Poverty Reduction

18. Azerbaijan has made progress toward eliminating income poverty, but the problem remains (Appendix 1, Tables A1.1, A1.3, and A1.4). Poverty incidence dropped from 46.7% in 2002 (the baseline year for this indicator) to 44.7% in 2003, and preliminary analysis of the 2004 household budget survey data suggests there were further declines in that year. The decline in poverty has been somewhat faster in urban areas than in rural, but there is still little disparity in urban and rural poverty rates (44.1% urban, 45.3% rural). The exception is in the capital city, where the poverty rate of 35.4% in 2003 is the lowest in the country. The depth of poverty, as measured by the poverty gap, is 8.8%, indicating that the poor are mostly clustered around the poverty line.

19. Azerbaijan has nearly achieved universal primary education, with gender equity in enrollment rates, but cutbacks in social sector spending threaten to erode these gains. Measuring progress on other nonincome aspects of poverty is difficult as data inconsistencies hamper the establishment of baselines and targets. However, available data suggest that infant and maternal mortality is improving after deteriorating following independence. The number of

<sup>8</sup> ADB staff prepared a rapid energy sector assessment in July 2005. Japan Bank for International Cooperation and the World Bank have recently done considerable analytical work on the sector

<sup>9</sup> ADB. 2005. *Technical Assistance to the Republic of Azerbaijan for Transport Sector Development Strategy*. Manila.



reported cases of HIV/AIDS<sup>10</sup> is low, but it is suspected that the disease is underreported and spreading. Data on indicators of environmental sustainability also suffer from inconsistencies and lack of comparability with international definitions, but an effort is being made to derive suitable baselines and targets.

20. The SPPRED secretariat, with assistance from United Nations Development Programme (UNDP), has made progress in setting appropriate country-specific targets for all MDGs, including agreeing on methodological approaches to measuring indicators and identifying data gaps. The secretariat worked closely with experts from the line ministries and United Nations agencies in this effort. The outcome of this work is presented in the SPPRED annual report,<sup>11</sup> which was discussed during a stakeholder workshop in May 2005. The goal is to finalize baselines and targets for all MDG indicators before the new national poverty reduction strategy is finalized.

## **B. Progress in the Country Strategy Program Focus Areas**

### **1. Direct Assistance to the Poor**

21. The IOS took a narrow approach to direct assistance to the poor, focusing on IDPs and refugees. Providing adequate housing was a top priority for IDPs, since many were living in accommodation that was ill suited for habitation. Under a grant-financed ADB pilot project,<sup>12</sup> 412 IDP families living in public school buildings in Mingechevir city were transferred to a new resettlement area. The schools, in turn, were rehabilitated and returned to their intended use. ADB's direct assistance to the poor now needs to encompass a broader range of vulnerable groups. Targeted interventions based on geographical considerations will have a greater impact on poverty, and will be in harmony with the Government's policy of balanced regional development. Since the IDPs remain one of the most disadvantaged groups in the country, ADB will continue to support improvements to their living conditions and livelihood opportunities, but this will now be integrated into other targeted poverty interventions where feasible.

22. In line with the view in SPPRED and SPSEDR that strengthening local governments is a key element in eliminating poverty, ADB will support Azerbaijan's decentralization efforts. The proposed projects on Early Childhood Development, Social Infrastructure for IDPs, and Social Infrastructure for Regional Towns will include components to develop the capacity of local government units in planning, decision making, management, and provision of basic services. In addition, the recently approved Cities Alliance grant<sup>13</sup> will support the preparation of city and regional development strategies in pilot towns. The ADB social infrastructure projects will then provide the financial support for regional towns to carry out their development strategies.

### **2. Development Outside the Oil Sector**

23. Outside the oil sector, investments in human capital are needed. However, public social sector spending was cut back dramatically following independence, with education and health outcomes suffering as a consequence. ADB will help the Government address the health,

<sup>10</sup> Human immunodeficiency virus/acquired immunodeficiency syndrome.

<sup>11</sup> SPPRED. 2005. *Progress Report 2003/2004*. Baku. Appendix 1 of the annual report summarizes the indicators the country is using to monitor progress in achieving the MDGs, including agreed baselines and targets, and also highlights areas where data issues still need to be resolved before agreed indicators can be set.

<sup>12</sup> ADB. 2002. *Technical Assistance to the Republic of Azerbaijan for Integration of Internally Displaced Persons in Mingechevir Rayon*. Manila.

<sup>13</sup> ADB Azerbaijan Resident Mission. 2005. *City and Regional Development Strategies for Azerbaijan*. Baku.

nutrition, and education needs of preschool children through the proposed Early Childhood Development project and the nutrition and health of mothers and children through a regional grant.<sup>14</sup> However, the investment needed to rehabilitate, upgrade, and equip school facilities are enormous, and there is also momentum for reform in modernizing teacher training and curriculum. ADB will therefore focus its future assistance on education rather than health. TA to prepare a project to strengthen basic education is planned for 2006 (the loan is on standby for 2006).

24. Although direct health sector interventions are not envisaged at this point, support for improved water supply and sanitation will have indirect health benefits. ADB will support rehabilitation of water supply and sanitation systems in key regional towns to complement its urban development work. The first loan to the sector was approved in 2004 and will upgrade the systems in Goychay, Agdash, and Nakhchivan.<sup>15</sup> Policy dialogue will help to support the establishment of regional water supply companies in these towns, including helping to develop an appropriate legal framework for the new companies. ADB TA will strengthen the institutions providing water supply and sanitation services in regional towns. Achieving cost recovery—including metering all connections and tariff reform—is one of the primary components of the policy dialogue. Preparation of a follow-up project to cover five more regional towns will begin in 2006.

25. An effective transport network is needed to connect the main regional population centers with markets in Baku, neighboring countries, and Europe. ADB's initial assistance to the transport sector will target physical rehabilitation of the main highway network connecting Azerbaijan to its neighbors in the region. The first project, approved in 2005, will upgrade part of the main east–west road connecting Baku to the Georgian capital, Tbilisi, via key population centers in Azerbaijan. Loan financed TA will support capacity development for road network management, especially planning for and financing of regular maintenance. In addition, customs facilities will be upgraded at key border points to facilitate trade along the road network. The second project, planned for 2006, will upgrade the southern road corridor, which links Baku to the Iranian border.<sup>16</sup> As the main road arteries will be under reconstruction once the work on the southern road corridor begins, future assistance will focus on secondary roads. Investment priorities will be identified in the transport sector strategy.

26. Although the IOS included an analysis of energy sector needs, no energy projects were pursued given the low lending levels anticipated when the IOS was written. However, in discussions with the Government on options for greater nonconcessional support, the energy sector was identified as a possible area for ADB interventions. In May 2005, an ADB sector review mission met Government officials and development partners to prepare a rapid sector assessment. The particular niches identified were renewable energy and gas supply in regional towns. Azerbaijan is participating in an ADB regional TA project promoting renewable energy, energy efficiency, and greenhouse gas abatement,<sup>17</sup> and the Government has committed itself to exploring the use of renewable energy as part of its generation expansion. To support this and to provide electricity to poor and remote areas of the country, a project on renewable energy will be processed as a standby loan for 2006. ADB will provide support for the

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<sup>14</sup> ADB. 2001. *Asian Countries in Transition for Improving Nutrition for Poor Mothers and Children*. Manila.

<sup>15</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Azerbaijan for Urban Water Supply and Sanitation*. Manila.

<sup>16</sup> The northern road corridor that connects Baku with the Russian Federation border is being rehabilitated with assistance from the European Bank for Reconstruction and Development.

<sup>17</sup> ADB. 2000. *Proposed Technical Assistance for Promotion of Renewable Energy, Energy Efficiency and Greenhouse Gas Abatement*. Manila.

refurbishment of gas supply systems in regional towns (TA programmed for 2006). The energy sector may also provide opportunities for private sector investments or public–private partnerships.

27. The IOS identified agriculture and rural development as a focus for ADB assistance, and ADB's first loan to Azerbaijan was in this sector.<sup>18</sup> The Flood Mitigation project was an urgent response to the recurring flooding problem in Azerbaijan. The project is helping protect the rural population from the loss of life and property that occurs almost annually in flood-prone areas, particularly in the southern Caucasus. A TA project will support integrated river basin management. To address the limited formal financial services outside Baku, the Micro and Rural Finance project will help to extend the reach of microfinance institutions and commercial banks so they can provide credit to customers in the regions. Recently approved grant assistance will provide livelihood support for households too poor to access the formal credit market, even microfinance.<sup>19</sup> Although these initiatives are promising, in order to maintain a focused assistance program, the pipeline does not include any new agriculture or rural development initiatives.

28. The environment for private sector development in Azerbaijan is evolving as the country continues its transition to a market-based economy. The Government's privatization program successfully transferred state ownership of thousands of small commercial enterprises to private operators, but large public enterprises still dominate many key sectors. Foreign direct investment outside the oil and gas sector has only trickled in and much of that has centered on Baku. ADB will promote greater reliance on private sector solutions. For example, ADB's support to the water supply and sanitation sector is helping establish local water utility companies. ADB advice is helping to create the legal framework that will be the basis for private investments in the sector in future. The Government signed a framework agreement for private sector operations in November 2004, opening the door for possible ADB support to private sector activities in Azerbaijan. ADB will explore opportunities to support commercial bank and nonbank financial institutions in the form of equity or lending through its private sector operations. As noted earlier, private infrastructure investments that complement ADB's public sector activities are also of particular interest. ADB's draft private sector assessment will be discussed in a stakeholder workshop in 2005. The final analysis will inform the CSP.

29. Compliance with social safeguard policies is an integral part of ADB's policy dialogue with the Government, particularly in sectors with large infrastructure investments. Investment projects in the road sector have included specific components to meet safeguard policy standards, and ADB resettlement and environment specialists have played an active role in project preparation to raise awareness of the issues and to help find solutions. TA for project preparation will include experts on social safeguard issues so that problems are tackled up front.

### **C. Highlights in Coordination of External Funding and Partnership Arrangements**

30. ADB closely coordinates its activities in Azerbaijan with other international institutions, including the World Bank, IMF, UNDP, United Nations Children's Fund (UNICEF), the European Bank for Reconstruction and Development (EBRD), and the Islamic Development Bank, as well as with bilateral aid agencies with representative offices in the country (see Appendix 1, Table A1.5). Several funding agencies, including World Bank, EBRD, and the United States Agency

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<sup>18</sup> ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Azerbaijan for Flood Mitigation*. Manila.

<sup>19</sup> ADB. 2005. *Mahalla Business Development*. Manila.

for International Development, prepared new country strategies in 2005, which provided an opportunity for ADB to coordinate the thematic or sector assessments in 2005 and the CSP in 2006 with the work being undertaken by these other agencies.

31. In May 2005, ADB signed a joint declaration with the Government of Azerbaijan, EBRD, IMF, UNDP, and the World Bank to align country strategies and programs to the Government's new long-term development strategy. Sector working groups, initially formed under SPPRED, will bring together Government, donors, and other stakeholders to provide substantive and coordinated guidance to the strategy. The importance the Government attaches to coordination with the donor community will help accelerate poverty reduction and economic development.

32. ADB is collaborating with other partners, including UNDP and the Government of Israel in municipal development, German development assistance in water supply and sanitation, and UNICEF in early childhood development. In conjunction with its lending program, ADB will continue to pursue cofinancing opportunities from both official and commercial sources. ADB will maintain a dialogue with the Government to identify appropriate financing for the projects it supports, including credit-enhancement products such as guarantees. In terms of TA, ADB will coordinate with funding agencies working in the same areas. In particular, ADB will work closely with EBRD when formulating the proposed private sector support to bank and nonbank financial institutions to ensure the efforts of both development banks are complementary.

### III. PORTFOLIO MANAGEMENT ISSUES

33. ADB has approved three projects to Azerbaijan (five loans), all of which are active (see Appendix 1, Tables A1.6 and A1.7). The first project, Flood Mitigation, was approved in December 2003, became effective in December 2004, and is being implemented. The second project, Urban Water Supply and Sanitation, was approved in December 2004, and the loan agreements were signed in November 2005. However, implementation of this project is rated unsatisfactory due to delays in fulfilling conditions for loan effectiveness. The third project, East-West Highway Improvement, was approved in December 2005. Loan and TA processing continues to experience delays whenever Government approvals are required, although the establishment of the resident mission in 2004 has improved the situation somewhat. The resident mission is working closely with Ministry of Economic Development to improve its understanding of the Government's internal processing requirements to eliminate bottlenecks.

### IV. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

#### A. Proposed Lending Level

34. Azerbaijan is classified as a B1 country, which means it is eligible to borrow from both concessional ADF and nonconcessional OCR. The lending pipeline for 2006 is shown in Appendix 1, Table A1.9, and the updated lending program for 2005 is in Appendix 4, Table A4.1. The ADF allocation to Azerbaijan for 2005–2006, based on the revised performance-based allocation policy,<sup>20</sup> is \$57.25 million, of which \$54.25 million is programmed for 2006. This allocation is greater than the \$34.2 million shown in the CSPU 2005–2006<sup>21</sup> because of the increased availability of ADF and changes in the allocation formula.

<sup>20</sup> ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of ADF Resources*. Manila.

<sup>21</sup> ADB. 2004. *Country Strategy and Program Update (2005–2006): Azerbaijan*. Manila.

35. Azerbaijan's external debt was only 20% of GDP in 2004, with much of this on concessional terms, and the debt service ratio was 3.6% of exports. The Government has committed itself to an ambitious infrastructure investment program, particularly for road transport and water supply and sanitation. Given Azerbaijan's positive macroeconomic outlook in the medium term, the country should be able to maintain its strong debt repayment capacity while increasing its level of nonconcessional borrowing if appropriate investment opportunities are identified. The revised 2005–2006 OCR lending program is \$174 million, compared with \$44 million in CSPU 2005–2006, reflecting increased support to the Government's infrastructure development plans.

## **B. Nonlending Program**

36. The nonlending program has been significantly streamlined to focus on support to lending operations and the preparation of the country strategy (Appendix 1, Table A1.10 and Appendix 4, Table A4.2). Azerbaijan has a clear need to develop a more robust lending pipeline, to avoid underutilization of its ADF allocations. Moreover, project executing and implementing agencies need capacity development to ensure projects are completed in a timely fashion. The priorities used to fine-tune the 2005–2006 TA pipeline were (i) project preparatory TA, (ii) capacity development TA in support of loan projects, and (iii) analytical work for the development of the national poverty reduction strategy and the CSP.

## **C. Summary of Changes to Lending and Nonlending Program**

37. A number of changes in the lending program occurred because of higher planned levels of OCR and slippages in project processing. Projects in the road and energy sectors were identified for OCR financing. The Central Corridor Roads Improvement Projects I and II listed in CSPU 2005–2006 were combined into a single project (East-West Highway Improvement), and the Southern Road Corridor Improvement Project was brought forward. The project preparatory TA (PPTA) for these projects were moved forward accordingly. Micro and Rural Finance, Social Infrastructure for IDPs (renamed Social Infrastructure and Capacity Building in Regional Towns), and Early Childhood Development all experienced processing delays. The Renewable Energy Development Project was added as a standby in 2006 (the PPTA added in 2005). Basic Education (PPTA 2006) is also included as a standby project to project against underutilization of ADF in the event a firm project slips. A review of the Samur–Absheron Water Supply Project during country programming indicated that more preliminary work is required before even project preparation can begin, and the loan was therefore moved back in the pipeline.

38. The revised loan program required a number of advisory TA projects (ADTA) to be dropped in favor of PPTA projects to develop a more robust lending pipeline. The ADTA for Housing Finance System Development, Water Resources Assessment, Capacity Building for Ministry of Finance, and Integrated Urban Development were removed to free up resources for PPTA for Basic Education, Gas System Restoration in Regional Towns, and Secondary Roads Improvement. Capacity development is being addressed through lending assistance (for example, the ADF-funded capacity development component included as part of the East-West Highway Improvement Project) until the lending pipeline improves. It is envisaged that capacity development ADTA for loan executing and implementing agencies will be included in the nonlending assistance from 2007, in addition to the PPTA for new projects.

## COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

**Table A1.1: Progress Toward the Millennium Development Goals and Targets**

<b>Goals and Targets</b>	<b>Country Status</b>
<b>Goal 1: Eradicate Extreme Poverty and Hunger</b>	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.	Because of problems with the PPP conversion rates for Azerbaijan, the \$1 a day indicator is not used. The national poverty line for monthly per capita consumption was set in 2002 at AZM175,000, based on a consumption basket of food and nonfood items, and revised annually to reflect changes in consumer prices. The poverty incidence was 46.7% in 2002 and 44.7% in 2003.
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Azerbaijan does not have an agreed target for nutrition-based poverty. An extreme poverty line, equal to the value of the minimum food basket of AZM124,137 in 2003 prices, was recently introduced. In 2003, 9.6% of the population was living in extreme poverty. Comparable data for earlier years are not available.
<b>Goal 2: Achieve Universal Primary Education</b>	
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	The 1999 census showed that 97.5% of all people aged 15-24 had completed primary school, although household survey data on net enrollment rates show less than full enrolment. Since universal primary education has been nearly achieved, the country will set its goals based on the achievement of universal secondary education and improvement in the quality of schooling.
<b>Goal 3: Promote Gender Equality and Empower Women</b>	
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.	Enrollment rates in primary and secondary education show only slight gender differences. In 2003, the gross enrollment ratios for grades 1-11 were 90.3% for boys and 88.7% for girls. This indicator will continue to be monitored, but the country will focus its attention of improving gender equality in higher education. Appropriate baselines and targets have not yet been set.
<b>Goal 4: Reduce Child Mortality</b>	
Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.	Administrative data show significantly lower figures for health outcomes than household survey estimates. Azerbaijan therefore has two indicators for this target: the baseline rate using official data is 24.8 (2001), which dropped to 19.9 in 2003. For survey estimates, the baseline is 88.4 (1996–2000) but no recent estimates are available.
<b>Goal 5: Improve Maternal Health</b>	
Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.	As with child mortality, administrative data show significantly lower figures for maternal mortality than survey estimates. Azerbaijan therefore has two indicators for this target. The baseline rate using official data is 37 (2000), which dropped to 18.5 in 2003. No baseline has been agreed for survey-based data (survey data showed a level of 79 in 1988) and no recent estimates are available.

Goals and Targets	Country Status
<b>Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases</b>	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.	The baseline for this indicator has not yet been set because of data problems. However, HIV/AIDS is believed to be a growing problem. The total number of known HIV/AIDS cases was 675 in 2004, but it is believed that the disease is under-reported.
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.	The baseline level for the prevalence of malaria in Azerbaijan is 13 cases per 100,000 population (2001). The rate dropped to 5.9 per 100,000 in 2003. The baseline level for the prevalence of tuberculosis is 183.1 cases per 100,000 population (2001). The rate dropped to 167 per 100,000 in 2003.
<b>Goal 7: Ensure Environmental Sustainability</b>	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.	SPPRED 2003-2005, the national poverty reduction strategy, integrates environmental concerns into the overall development strategy. Indicators on the loss of environmental resources are still being developed.
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.	There is a divergence between administrative data and household survey data regarding access to safe drinking water. Administrative data, which only include access to piped water, show 94.2% of urban and 11.2% of rural households had access to piped water in 2002, with no change in 2003. However, household survey data indicate that 86.1% of urban and 29.2% of rural households had access to safe water in 2002. This increased to 91.7% of urban and 39.2% of rural households with access in 2003. Discussions on the specific target are ongoing and will need to cover the quality of piped water as well as access to be meaningful.
Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.	The issue of slum dwellers in Azerbaijan is linked to the situation regarding IDPs and refugees from the Norgorno-Karabakh conflict. The goal in Azerbaijan is to ensure that all IDPs are resettled to housing with at least basic services (water, sanitation, etc.) by 2010. A baseline for this indicator needs to be set.

IDP = internally displaced person, PPP = purchasing power parity, SPPRED = State Programme on Poverty Reduction and Economic Development.

Sources: State Programme on Poverty Reduction and Economic Development. 2005. *Progress Report 2003/2004*. Baku.

Table A1.2: Country Economic Indicators

Item	Fiscal Year				
	2000	2001	2002	2003	2004
<b>A. Income and Growth</b>					
1. GDP per Capita (\$, current)	652.5	701.0	760.3	863.6	1,020.9
2. GDP Growth (% , in constant prices)	11.1	9.9	10.6	11.1	10.2
a. Agriculture	12.6	11.1	6.4	5.6	4.6
b. Industry	5.7	7.3	17.7	15.0	12.2
c. Services	9.4	7.9	5.9	7.6	7.7
<b>B. Saving and Investment (% of GDP)</b>					
1. Gross Domestic Investment	20.7	20.7	34.6	51.2	—
2. Gross National Saving	30.2	32.1	31.2	34.2	—
<b>C. Money and Inflation (annual % change)</b>					
1. Consumer Price Index <sup>a</sup>	1.8	1.5	2.8	2.2	6.7
2. Total Liquidity (M2)	86.7	(12.1)	14.3	29.8	47.5
<b>D. Government Finance (% of GDP)</b>					
1. Revenue and Grants	18.6	18.0	18.7	24.2	25.0
2. Expenditure and Onlending	20.8	20.1	20.8	27.2	27.0
3. Overall Fiscal Surplus (deficit)	(2.2)	(2.1)	(2.1)	(3.1)	(2.0)
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	6.1	10.8	7.7	(1.4)	1.9
2. Current Account Balance (% of GDP)	(3.2)	(0.9)	(12.3)	(28.3)	(30.4)
3. Merchandise Export (\$) Growth (annual % change)	81.3	11.9	10.9	13.9	42.6
4. Merchandise Import (\$) Growth (annual % change)	7.4	(4.8)	24.5	49.3	31.5
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (\$ million) <sup>b</sup>	950.6	1,218.0	1,413.8	1,619.8	2,049.0
(weeks of current year's imports of goods)	32.1	43.2	40.3	30.9	29.7
2. External Debt Service (% of exports of goods and services)	4.5	4.8	4.4	5.0	3.6
3. Total External Debt (% of GDP)	22.5	22.8	21.9	22.0	20.0
<b>G. Memorandum Items</b>					
1. GDP (current prices, AZM trillion)	23.6	26.6	30.3	35.1	41.9
2. Exchange Rate (AZM/\$, average)	4,474.2	4,656.7	4,860.8	4,910.7	4,913.4
3. Population (million)	8.1	8.1	8.2	8.3	8.3

— = not available; GDP = gross domestic product.

<sup>a</sup> Period average.

<sup>b</sup> Including gold and state oil fund assets.

Sources: Ministry of Finance, National Bank, and State Statistical Committee of Azerbaijan; International Monetary Fund; and Asian Development Bank estimates.



**Table A1.3: Country Poverty and Social Indicators**

Item	Period		
	1991	2000	Latest Year
<b>A. Population Indicators</b>			
1. Total Population (million)	7.3	8.1	8.3 (2004)
2. Annual Population Growth Rate (% change)	1.5	0.8	1.0 (2004)
<b>B. Social Indicators</b>			
1. Total Fertility Rate (births/woman in %)	5.0 (1990)	2.8	2.7 (2003)
2. Maternal Mortality Ratio (per 100,000 live births) <sup>a</sup>	–	79 (1998)	–
3. Infant Mortality Rate (below 1 year/1,000 live births) <sup>a</sup>	74.4 (1996–2000)	–	–
4. Life Expectancy at Birth (years)	70.5	71.8	71.4 (2004)
a. Female	74.5	75.1	75.2 (2004)
b. Male	66.3	68.6	69.6 (2004)
5. Adult Literacy (%)	–	98.8 (1999)	–
a. Female	–	99.5 (1999)	–
b. Male	–	98.2 (1999)	–
6. Primary School Gross Enrollment (%)	–	91.8 (1999/2000)	92.3 (2002/03)
7. Secondary School Gross Enrollment (%)	–	75.8 (1999/2000)	82.8 (2002/03)
8. Child Malnutrition (% below age 5)	–	6.8 (2001)	–
9. Population with Access to Safe Water (%)	66 (1990)	–	77 (2002)
10. Population with Access to Sanitation (%)	–	–	55 (2002)
11. Public Education Expenditure (% of GDP)	–	4.2 (1999/2000)	3.2 (2002/03)
12. Human Development Index	0.770	0.741	0.729 (2003)
Country Rank/Number of Countries Ranked	62/173	88/173	101/159 (2003)
13. Gender-Related Development Index	–	0.691 (1997)	0.725 (2003)
Country Rank/Number of Countries Ranked	–	82/143 (1997)	77/140 (2003)
<b>C. Poverty Indicators</b>			
1. Poverty Incidence (%) <sup>b</sup>	–	46.7 (2002)	44.7 (2003)
2. Percent of Poor to Total Population <sup>b</sup>	–	–	–
a. Urban	–	47.8 (2002)	44.1 (2003)
b. Rural	–	45.4 (2002)	45.3 (2003)
3. Poverty Gap Ratio (%) <sup>b</sup>	–	8.2 (2002)	8.8 (2003)
4. Poverty Severity Index	–	–	–
5. Inequality (Gini Coefficient)	–	0.365 (2001)	0.288 (2003)
6. Human Poverty Index	–	–	–
Country Rank/Number of Countries Ranked	–	–	–

– = not available, GDP = gross domestic product.

<sup>a</sup> Based on household survey data. Regular administrative data provide significantly lower figures for health indicators.

<sup>b</sup> Based on the national poverty line of AZM175,000 per person per month in 2002, adjusted for inflation. Because of changes in methodology, poverty data before 2002 are not comparable with later figures and have therefore been omitted.

Sources: State Statistical Committee; State Programme on Poverty Reduction and Economic Development. 2005. *Progress Report 2003/2004*. Baku; United Nations Development Programme. Various years. *Human Development Report*. New York; and United Nations Educational, Scientific, and Cultural Organization online database (<http://stats.uis.unesco.org>).

Table A1.4: Country Environment Indicators<sup>a</sup>

Indicator	1990	Latest Year
<b>A. Energy Efficiency of Emissions</b>		
1. GDP/Unit of Energy Use (PPP\$/kgoe)	1.4 (1992)	1.7 (2001)
2. Traditional Fuel Use (% of total energy use)	—	0.0 (2001)
3. Carbon Dioxide Emissions		
a. Million Metric Tons	47.2 (1992)	28.0 (2002)
b. Tons per Capita	6.3 (1992)	3.4 (2002)
<b>B. Water Pollution: Water and Sanitation</b>		
1. % Urban Population with Access to Safe Water	80.0	95.0 (2002)
2. % Rural Population with Access to Safe Water	49.0	59.0 (2002)
3. % Urban Population with Access to Sanitation	90.0 (1995)	73.0 (2003)
<b>C. Land Use and Deforestation</b>		
1. Forest Area (% of land area)	11.4	11.5 (2003)
2. Average Annual Deforestation		
a. Km <sup>2</sup>	—	(6.63) (1990–2000)
b. % Change (% of total land area)	—	(0.007) (1990–2000)
3. Rural Population Density (arable land in ha per capita)	—	0.59 (2002)
4. Arable Land (% of total land)	17.3 (1992)	19.6 (2001)
5. Permanent Cropland (% of total land)	7.9 (1994)	4.8 (2002)
<b>D. Biodiversity and Protected Areas</b>		
1. Nationally Protected Area		
a. Million Hectares	—	602.2 (2005)
b. % of Total Land	5.5 (1996)	8.2 (2005)
2. Mammals (number of threatened species)	—	14 (2004)
3. Birds (number of threatened species)	—	36 (2004)
4. Higher Plants (number of threatened species)	—	28 (1997)
5. Reptiles and Amphibians (number of threatened species)	—	67 (2004)
<b>E. Urban Areas</b>		
1. Urban Population		
a. Million	3.9	4.2 (2003)
b. % of Total Population	53.9	50.6 (2003)
2. Per Capita Water Use (liters/day)	450	400 (2004)
3. Wastewater Treated (%)	50	45 (2004)
4. Solid Waste Generated Per Capita (kg/day)	—	0.7 (2004)

— = not available, kg = kilogram, kgoe = kilograms of oil equivalent, ha = hectare, km<sup>2</sup> = square kilometer, PPP = purchasing power parity.

<sup>a</sup> Official indicators should be regarded with caution since they differ quite significantly from field observations and data collected by other sources.

Sources: Asian Development Bank. 2005. *Poverty and Development Indicators Database Intranet Website* (<http://lxapp1:8030/povdbre/default.html>); World Bank. 2005. *World Development Indicators Database Internet Website* (<http://devdata.worldbank.org/data-query/>); United Nations Development Programme. 2005. *Human Development Report 2004 Website* (<http://hdr.undp.org/reports/global/2004/>); United Nations Statistics Division. 2005. *Millennium Indicators Database Internet Website* (<http://millenniumindicators.un.org/unsd/databases.htm>); *State Programme on Poverty Reduction and Economic Development: Progress Report 2003/2004*. 2005. Baku; and additional data provided by the Ministry of Ecology and Natural Resources.

**Table A1.5: Development Coordination Matrix**

<b>Sector/Thematic/Area</b>	<b>ADB Strategy/Activities</b>	<b>Other Development Partners' Strategies/Activities</b>
<p>Macroeconomic Stabilization, Structural Reforms, and Public Sector Reforms</p>	<p>Supporting good governance and institutional strengthening is one of the three strategic objectives of ADB's interim operational strategy (IOS). In line with this objective, ADB has provided TA for capacity development for strategic economic policy formulation in the Ministry of Finance and the Ministry of Economic Development. ADB has provided TA support for the preparation and implementation of the State Programme on Poverty Reduction and Economic Growth (SPPRED) to the State Programme for Poverty Reduction and approved further TA to help formulate and implement the new 10-year national poverty reduction strategy.</p>	<p>The IMF (International Monetary Fund) Poverty Reduction and Growth Facility (PRGF), the final review of which was successfully completed in July 2005, supported the Government's macroeconomic stabilization program and efforts to reduce poverty. Future IMF support will concentrate on providing recommendations and technical assistance (TA) to strengthen further macroeconomic management and to promote key sector reforms.</p> <p>In 2002, the World Bank approved the Second Structural Adjustment Credit (SAC-II) in the amount of \$60 million to support (i) public sector reforms aimed at strengthening policies and institutions for management of oil revenues, public, expenditure management, poverty monitoring social services and social safety nets; (ii) accelerated and more broad-based development of the nonoil sector through continual improvement of the business environment; and (iii) improved financial discipline and service delivery in the utility sectors. The concomitant Institutional Building Technical Assistance II is intended to support the policy measures to be implemented under SAC-II. The World Bank approved its first poverty reduction support credit (PRSC) for \$20 million in May 2005 to support the Government's efforts to carry out reforms as defined in SPPRED (State Programme on Poverty Reduction and Economic Development). The PRSC will deepen the reform agenda supported by SAC-II by supporting the implementation of measures to further improve public governance and more effective use of public resources, improving the overall business environment for private sector development and investment; and strengthening financial discipline and service delivery in the utility and social sectors.</p> <p>USAID (United States Agency for International Development) provides support to strengthen banking supervision, improve transparency and efficiency of treasury and financial management, promote reform agendas in the energy sector, and develop government capacity for capital budget preparation. In 2005, USAID launched the \$5 million Public Investment Policy and Efficiency Project, which will help strengthen the Government's institutional capacity for the long-term development of the oil sector, complemented by efforts to strengthen Azerbaijan's civil society so that it is educated and involved in responsible oil policy. The project will also help to strengthen the Government's capacity to identify, prepare, appraise, and execute capital investment projects to spur the growth of the non-oil economy and reduce poverty.</p> <p>UNDP (United Nations Development Programme) has provides support for the development and implementation of SPPRED and will provide additional TA for the formulation and implementation of the new 10-year poverty reduction strategy. EU TACIS (European Union Technical Assistance to the Commonwealth of Independent States) is providing TA for capacity development in the Ministry of Economic Development (MOED), and IsDB (Islamic Development Bank) is providing TA for capacity development at the Ministry of Finance (MOF).</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
Agriculture and Rural Development	<p>The IOS identified agriculture and rural development as a focus for ADB assistance. ADB provided assistance for flood mitigation to protect critical infrastructure from the threat of flooding from hill torrents. ADB is also preparing a project to support the expansion of commercial banking and microfinance into the rural areas. However, future assistance to the sector is not envisaged at this time in order to develop a more focused lending pipeline. Continued involvement in the sector will be reviewed as part of the development of the country strategy and program.</p>	<p>This is one of the focus areas of the World Bank's assistance to Azerbaijan. Four loans have already been approved to support land privatization, farm restructuring, development of rural business advisory services and credit, and rehabilitation of irrigation and drainage infrastructure. The latest loans are a Second Irrigation Loan (approved in 2003), the Rural Investment Project (approved in 2004), and the Rural Environment Project (approved in 2005). The World Bank has recently been requested to provide assistance to address the serious flooding in the Kura River Area. A proposal to construct levees on the upper reaches of the Kura River and to manage the water levels in the Mingechevir and Araz Reservoirs is still under consideration.</p> <p>In support of land reform, Japan is providing technical support and equipment for the preparation of digital land maps. In addition, a revolving fund has also been provided under Japanese cooperation for agricultural machinery.</p> <p>EBRD (European Bank for Reconstruction and Development) has been expanding its SME (small-and medium-sized enterprise) support in agro-processing and agribusiness through equity financing and credit lines.</p> <p>IsDB funded an irrigation and drainage rehabilitation project and will continue its assistance in 2005. In addition, a TA has been provided for agribusiness development.</p> <p>USAID will continue its support for credit programs for small farms and will provide assistance to agribusiness and rural development programs. For 2005, USAID has budgeted about \$13 million for TA and training in: (i) cluster enterprise development, (ii) micro-credit enterprises, (iii) increasing the competitiveness of rural enterprises, and (iv) food quality program.</p> <p>The EU (European Union) has assisted in the establishment of five agribusiness centers to help farmers prepare business plans. Through its EXAP, EU provided limited assistance for flood protection in the Sheki-Zagatala region. A next stage of the EXAP foresees assistance for construction of flood control infrastructure in Nakhchivan Autonomous Region.</p> <p>KfW (Kreditanstalt für Wiederaufbau) has provided €3.5 million in assistance for the establishment and modernization of real estate register and cadastre in Azerbaijan. The major components are improvements of the land tax system, transparency of privatization, and land resources management.</p>
Water Supply and Sanitation	<p>Water supply and sanitation is one of the four focus areas of the IOS. In 2004, ADB approved an investment project to improve water supply and sanitation services in</p>	<p>The World Bank has approved a loan to assist with the rehabilitation of water supply and sanitation in the Greater Baku area. In addition, two public-private infrastructure advisory facility studies of the regulatory framework and capacity in the power and water sectors and the private sector participation in the water sector in the Greater Baku area have recently been launched.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
	<p>three towns (Goychay, Agdash and Nakhchivan). The preparation of the next phase of support for rehabilitation of systems in additional regional towns will begin in 2005.</p>	<p>USAID provided support for meteorological stations and training as a part of the South Caucasus Regional Water Management Program. It dealt with increased cooperation among South Caucasus countries in support of improved water management in the region.</p> <p>KfW is designing its Communal Infrastructure Programme II by providing €37 million in credit on concessional terms, €4 million grant for accompanying measures and training, and managing €10 million grant from Swiss Cooperation Secretary. The aim of the project is to improve water supply and sanitation in two regional towns: Ganja and Sheki.</p> <p>IsDB, OPEC (Organization of Petroleum Exporting Countries) Fund for International Development, and the Saudi Fund for Development are all planning to provide assistance for the Samur-Absheron canal (Velveli chay-Takhta kerpu) in 2006. Further, IsDB will provide financing for Khanarkh Canal.</p>
Education	<p>Investments in human capital are needed to provide the necessary skills for non-oil sector development. ADB will support the education sector through the planned Early Childhood Development and Basic Education projects.</p>	<p>The World Bank focuses on policy dialogue and sector reforms. A credit for Education Reform Program (ERP) was approved in 1999 to support reforms in curriculum development and teacher education and training. Another education loan was approved in 2003 to help finance the first phase of the ERP, which was developed by the Government in cooperation with the World Bank.</p> <p>UNICEF (United Nations Children's Fund) is supporting the piloting of decentralized management and community-level financing programs in five primary and secondary schools.</p> <p>The Soros Foundation is providing support in a number of areas including local textbook development, printing capacity development, preschool education, and civic education management.</p> <p>The Saudi Fund for Development has budgeted \$9.5 million for the construction of five secondary schools in Baku.</p>
Health	<p>Because of the involvement of other donors in the sector, ADB's support will be limited. ADB provided some assistance through a regional grant to arrest the trend of micronutrient deficiencies in Central Asia. Future health sector assistance for early childhood development is also envisaged, and multisector loans for urban development may include local</p>	<p>In September 2001, the World Bank approved a loan to support implementation of health sector reforms in five districts on a pilot basis. Since the experience to date has not been encouraging, the World Bank does not plan to finance new projects in the health sector in the near future.</p> <p>UNICEF and WHO (World Health Organization) are implementing pilot district health programs and providing support for maternal and child health care.</p> <p>JICA (Japan International Cooperation Agency) has provided support for the rehabilitation of the Center for Tuberculosis and Lung Diseases in Baku, a children's hospital, a maternity house, and a health training and service center. Further assistance has been provided for the</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
	health sector investments.	<p>purchase of medical equipment and the preparation of a comprehensive plan of reforms in the Health Sector.</p> <p>GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit) has provided support for an international training and service center, the establishment of a national system of health monitoring, and training for medical staff.</p> <p>UNDP and the United Nations Population Fund are providing assistance in reproductive health care and for the establishment of a network of family clinics.</p> <p>USAID will assist in the following areas: (i) promoting and strengthening self-sufficient community-based health care systems including cost-recovery mechanisms, drug revolving funds and insurance systems; and (ii) improving medical services at community-based clinics. USAID will also provide health education concentrating on reproductive health and maternal and child health. In addition, USAID has drafted a Social Transition Program that will focus on increasing integration of health, social and economic assistance activities into multi-dimensional community-based endeavors.</p> <p>KfW Development Bank has granted a €3 million to the Tuberculosis Control Programme for the improvement of tuberculosis diagnosis and treatment process in accordance with WHO's strategy in Azerbaijan.</p> <p>UNDP has provided grants in the establishment of a blood bank and for the strengthening of the capacity of civil society in response to HIV/AIDS.</p>
Social Protection/Pension	Sector issues are being addressed by other donors, and ADB will not be active.	<p>The World Bank has made detailed recommendations on reforming the social protection system. A \$10 million credit to support reform of the pension system was approved in 2004.</p> <p>The EU is providing TA for pension system development and labor protection. It also provided support for the establishment of employment services centers in various cities.</p>
Assistance for Refugees and Internally Displaced Persons (IDPs)	Support for IDPs was identified in the IOS as a focus for direct poverty-reduction initiatives. ADB's assistance is aimed at helping IDPs (i) gain equal access to essential public services that are available to other population groups in local communities, and (ii) achieve self-reliance and reintegration into the economic mainstream. A \$2.5 million grant approved in 2002	<p>The World Bank provided assistance through various projects, including a pilot reconstruction project approved in 1998 and a supplement project for the establishment of a social fund for IDPs. The IDP Economic Development Support Project was approved in 2005.</p> <p>UNDP and other United Nations agencies play a leading role in coordinating humanitarian and emergency aid for refugees and IDPs. These include resettlement activities, a de-mining program by UNDP, and a shelter program by the United Nations High Commissioner for Refugees.</p> <p>The EU has allocated funds for the improvement of basic infrastructure in the Agdam and Fizuli districts.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
	<p>helped 412 IDP households in Mingchevir city to reintegrate themselves into the mainstream of society. The initiative will be scaled up under the planned loan-financed project.</p>	<p>GTZ participated in resettlement activities in the Fizuli and Horadiz districts. Japan gave grant assistance including humanitarian assistance (emergency food supply, de-mining, immunization for children), and human development activities. International NGOs provided emergency and humanitarian aid.</p> <p>The World Food Program (WFP) is also active through various food supply initiatives, but WFP is set to terminate food aid to 130,000 IDPs in 2006.</p>
Oil and gas	<p>The IOS notes that ADB will not be involved in the oil and gas sector, except as it may relate to crosscutting themes such as environmental protection, private sector development, or regional cooperation.</p>	<p>The World Bank provided two loans to support the development of the oil and gas sector: (i) the petroleum TA project to encourage foreign direct investment, and (ii) the gas system rehabilitation project to support commercialization of the gas industry.</p> <p>EBRD has provided long term financing to seven oil companies operating in Azerbaijan and mobilized complementary financing for projects in the oil and gas sector.</p> <p>EU TACIS has provided support for the rehabilitation of oil-contaminated land, and it has plans to provide assistance for the implementation of international standards in the manufacturing of oil field equipment.</p> <p>US Trade Development Agency is assisting the State Oil Fund of Azerbaijan in developing its institutional capacity to better manage increasing oil revenues.</p>
Energy (including piped gas transmission and distribution for domestic use)	<p>The IOS included an analysis of the needs in the energy sector, and the Government has requested ADB support for energy within an expanded lending program. The niches identified were renewable energy and gas supply in regional towns, because of the environmental benefits and complementarities with other ADB support for the development of regional towns.</p>	<p>The World Bank provided support to improve the management of domestic energy systems and restructure the relevant institutions. A \$48 million power transmission loan for Azenergy JSC was approved in 2005.</p> <p>EBRD has provided two loans for the rehabilitation of the Yenikend and Mingchevir hydropower plants. In addition, it has provided TA to Azenergy. EBRD intends to remain active in this sector in the future.</p> <p>KfW Development Bank has provided assistance for a power transmission rehabilitation program in 1998 and another one is planned in 2005. The aim of the second project is to stabilize the transmission of power in Baku-Absheron and in the north regions of Azerbaijan.</p> <p>Japan has provided two loans to finance the Severnaya Gas Combined-Cycle Power Plant project. JICA has also financed a power transmission rehabilitation project in Baku.</p> <p>EU TACIS provided TA on legislation in the electricity sector and will provide assistance to the Ministry of Fuel and Energy in 2006. It has provided assistance to modernize the gas transmission network under the INOGATE program.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>USAID is engaged in the development of reform agendas and regulatory framework for a commercially viable energy sector, which would enable Azerbaijan to meet World Bank and IMF requirements. Program elements include introducing modern tariff, licensing and market oversight methodologies and instruments, creating an efficient market structure for the domestic electricity and gas sub sectors, and designing a viable energy assistance program for low income and vulnerable populations.</p>
Transportation	<p>Transportation was a focus area in the IOS. ADB's initial assistance will focus on the rehabilitation of the primary highway network. Future assistance will support the rehabilitation of secondary roads to link key regional urban centers to the main road arteries.</p>	<p>The World Bank is financing a project for the rehabilitation of the Ganja-Qazakh section of the central corridor highway. In 2006, it is planning to finance the trade and transport facilitation project of the Ministry of Transport.</p> <p>EBRD has provided three loans for the modernization of Azerbaijan's air navigation systems, infrastructure improvements along the Trans-Caucasian Railroad, and the reconstruction of the ferry terminal in Baku. This year, EBRD intends to finance the Hajigabul-Kurdamir segment of the central corridor highway and the reconstruction of Baku-Samur road in 2006.</p> <p>The focus of EU assistance is through the TRACECA program, which involves improvements in the east-west highway. The EU is also providing assistance for establishing the functions, organization, and operations of the Ministry of Transport.</p> <p>The Abu-Dabi Fund for Development will provide a \$10 million loan for the reconstruction of Baku Bypass Road.</p> <p>The OPEC Fund for International Development and the Saudi Fund for Development are planning to provide assistance in 2006 for the construction of Ujar-Yevlakh and Yevlakh-Ganja roads respectively.</p> <p>The IsDB and Kuwait Fund for Arab Development are also planning to provide a number of assistance for the upgrade of various segments of the central corridor highway.</p>
Finance, Privatization/Private Sector Development	<p>A number of development partners are providing assistance to the finance sector, but the sector is still centered on the capital area. ADB's micro and rural finance project will help extend the reach of the sector into the regions, supporting the development of the non-oil sector.</p>	<p>IMF has provided substantial TA in strengthening the banking regulation and supervision and upgrading the payments system.</p> <p>The World Bank is supporting the development of the financial sector through its multi-component Financial Sector Technical Assistance project. A loan is planned for 2006 to support the development of the private sector and SMEs. The Financial Services Development Project approved in 2005 will provide further support to the central bank to finalize the payment system and will provide a component to extend financial services to rural areas through Azeri Post.</p> <p>USAID is implementing the SME Support through Financial Sector Development (SME-FSD) Project to encourage lending to SMEs, especially through non-bank financial institutions. In</p>



Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
		<p>particular, the project will address the capital constraints facing banks and on-banks by providing loan guarantees where appropriate.</p> <p>KfW operations in Azerbaijan have focused on the finance sector. In cooperation with IFC, EBRD, and the Black Sea Development Bank, KfW established the Microfinance Bank of Azerbaijan, a commercial bank focused on SME lending. It has programmed a number of grants for the saving insurance system and the establishment of a loans guarantee fund. It is developing a Credit Guarantee Fund to provide local banks with access to international capital markets through first class guarantees issued by KfW Development Bank. The funds raised by local banks from international capital markets will be used for their SME lending operations. KfW Development Bank has also set up a Deposit Insurance Fund to improve the population's trust in the banking system. Further, KfW Development Bank in partnership with the Government operates the German Azerbaijan Fund which promotes SMEs development by giving them a sustainable access to formal financial services.</p> <p>EU is active in rural finance through the Rural Investment Foundation, a non-bank credit organization providing loans in 24 rural districts. EU TACIS is providing support for the improved regulation of post-privatization activities of joint-stock companies and the development of a securities market.</p> <p>Under the "Early Transition Countries" initiative launched in 2004, EBRD has been strongly engaged in financing private sector business development and selected public sector interventions. IFC provides credit lines to SMEs through selected commercial banks. GTZ is supporting diagnostic studies of selected business areas of the private sector.</p>
Environment	The IOS stresses the importance of sound management of natural resources and protection of environment to promote sustainable development. Full attention will be given to addressing environmental concerns relating to ADB projects.	<p>The World Bank, along with the Global Environment Facility and other bodies such as UNDP and the EU, supports the environmentally sustainable development and management of the Caspian environment through the regional Caspian Environment Program. The World Bank is also conducting a study for a proposed Kura River Delta Rehabilitation Project. The project would be aimed at clearing the main channel of the Kura River Delta to allow access to the sturgeon population. In addition, the World Bank approved the Rural Environment Project in 2005, which aims to improve biodiversity conservation and introduce more sustainable natural resource management and economic activities in two mountainous areas.</p> <p>KfW is engaged in the preparation of an Eco-regional Nature Protection Programme that focuses on the protection of biodiversity by creating National Parks in the Samur-Yalama region.</p> <p>JICA provided support for the development of an environment master plan in Baku, EU Tacis financed the rehabilitation of oil-contaminated land, and EBRD is providing support for the development of a national oil spill contingency plan.</p>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategies/Activities
Law and Development	Since other aid agencies are currently covering this sector, ADB will not be active.	<p>IMF and the World Bank address various aspects of legal and judicial reforms under the PRGF arrangement and the SAC-II program, respectively. EBRD assisted with the development of the Secured Transactions Law, the Bankruptcy Law, and the Foreign Investment Law.</p> <p>GTZ provided assistance in the drafting of basic statutes such as the Civil Code, Civil Procedure Code, and Criminal Code. Further assistance will be provided to support legal and judicial reforms and security policy. The Council of Europe provided assistance and comments on various draft laws.</p> <p>EU TACIS provided assistance for the establishment of an Azerbaijani Policy and Legal Advice Center and supported the modernization and reform of the legal and judicial system. It will also be providing TA to support reforms in the penitentiary system and bailiff services.</p> <p>USAID has a number of TA projects focusing on reforms in the legal system, electoral process, political and civic organizations.</p>
Gender and Development	ADB will finalize the gender assessment in 2005, which will help in the preparation of the CSP.	UNDP has pioneered the preparation of the first national gender study, the 2004 National Human Development Report on Gender Attitudes. OSCE has established the Gender Development Working Group Initiative as a means to improve donor coordination in this area.

ADB = Asian Development Bank, CSP = country strategy and program, EBRD = European Bank for Reconstruction and Development, ERP = Education Reform Project, EU = European Union, EU TACIS = European Union Technical Assistance to Commonwealth of Independent States, EXAP = exceptional assistance program, GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation), HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome, IDP = internally displaced persons, IFC = International Finance Corporation, IMF = International Monetary Fund, IOS = interim operational strategy, IsDB = Islamic Development Bank, JICA = Japan International Cooperation Agency, KfW = Kreditanstalt für Wiederaufbau, MOED = Ministry of Economic Development, MOF = Ministry of Finance, NGO = nongovernment organization, OPEC = Organization of Petroleum Exporting Countries, OSCE = Organization for Security and Cooperation in Europe, PRGF = Poverty Reduction and Growth Facility, PRSC = poverty reduction support credit, SAC = structural adjustment credit, SME = small- and medium-sized enterprises, SPPRED = State Programme on Poverty Reduction and Economic Development, TA = technical assistance, TRACECA = Transport Corridor Europe Caucasus Asia, UNDP = United Nations Development Programme, UNICEF = United Nations Children's Fund, USAID = United States Agency for International Development, WFP = World Food Program, WHO = World Health Organization.

Source: Asian Development Bank.

**Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings**  
(public sector loans, as of 31 December 2005)

Sector	Net Loan Amount		Rating <sup>a</sup>													
			Total		Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem <sup>b</sup>		At Risk <sup>c</sup>	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources	22.0	21.3	1	20.0	—	—	1	100.0	—	—	—	—	0	0.0	0	0.0
Education	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Energy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Health, Nutrition, and Social Protection	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Industry and Trade	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Law and Public Sector Management	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Multisector	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transport and Communications	52.0	50.3	2	40.0	—	—	2	100.0	—	—	—	—	0	0.0	0	0.0
Water Supply, Sanitation, and Waste Management	29.4	28.4	2	40.0	—	—	—	—	—	—	2	100.0	0	0.0	2	100.0
<b>Total</b>	<b>103.4</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>3</b>	<b>60.0</b>	<b>—</b>	<b>—</b>	<b>2</b>	<b>40.0</b>	<b>0</b>	<b>0.0</b>	<b>2</b>	<b>40.0</b>

— = not available, No. = number.

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>c</sup> A loan is "at risk" if it is rated partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

**Table A1.7: Portfolio Implementation Status**  
(public sector loans, as of 31 December 2005)

Sector	Loan No.	Seg	Title	Net Loan Amount		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
				OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
AG	2068		Flood Mitigation	0.0	22.0	19 Dec 03	08 Dec 04	30 Sep 08	—	0
TC	2205		East-West Highway Improvement	49.0	0.0	08 Dec 05	—	31 May 10	—	—
TC	2206		East-West Highway Improvement	0.0	3.0	08 Dec 05	—	31 May 10	—	—
WS	2119		Urban Water Supply and Sanitation	0.0	19.4	07 Dec 04	—	30 Jun 11	—	—
WS	2120		Urban Water Supply and Sanitation	10.0	0.0	07 Dec 04	—	30 Jun 11	—	—
<b>Total</b>				<b>59.0</b>	<b>44.4</b>					<b>0</b>

— = not available; ADF = Asian Development Fund; AG = agriculture and natural resources; No. = number; OCR = ordinary capital resources; Seg = segment (pertaining to loans with more than one withdrawal authority; TC = transport and communications; WS = water supply, sanitation, and waste management.  
Source: Asian Development Bank estimates.

Sector	Loan No.	Seg	Title	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem <sup>a</sup>	At Risk <sup>b</sup>
						IP	DO		
AG	2068		Flood Mitigation	1.38	0.50	S	S	No	No
TC	2205		East-West Highway Improvement	0.00	0.00	S	S	No	No
TC	2206		East-West Highway Improvement	0.00	0.00	S	S	No	No
WS	2119		Urban Water Supply and Sanitation	0.00	0.00	U	S	No	Yes
WS	2120		Urban Water Supply and Sanitation	0.00	0.00	U	S	No	Yes
<b>Total</b>				<b>1.38</b>	<b>0.50</b>				

AG = agriculture and natural resources; DO = development objectives; HS = highly satisfactory; IP = implementation progress; No. = number; PS = partly satisfactory; S = satisfactory; Seg = segment (pertaining to loans with more than one withdrawal authority; TC = transport and communications; U = unsatisfactory; WS = water supply, sanitation, and waste management.

<sup>a</sup> "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

<sup>b</sup> A loan is considered "at risk" if it is rated "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

**Table A1.8: Operational Sectors and Policy Focus of the 2005–2006 Program**

Sector/Planned Intervention	Policy Focus and Content
<b>Education</b> Early Childhood Development (Loan) <sup>a</sup> Basic Education (PPTA)	<ul style="list-style-type: none"> <li>• <b>Improve access to quality preschool and basic education</b> <ul style="list-style-type: none"> <li>▪ Create a conducive learning environment</li> <li>▪ Introduce child-centered learning</li> <li>▪ Formulate a new curriculum and pre-service teacher training</li> </ul> </li> <li>• <b>Promote health and nutrition practices</b> <ul style="list-style-type: none"> <li>▪ Improve skills of primary health care workers</li> <li>▪ Increase coverage of micronutrient supplementation</li> <li>▪ Promote infant and young child feeding and care practices</li> </ul> </li> <li>• <b>Pilot community-based approaches</b> <ul style="list-style-type: none"> <li>▪ Establish alternative preschools</li> <li>▪ Train facilitators</li> <li>▪ Improve parents' knowledge and practices</li> </ul> </li> <li>• <b>Provide capacity development and management</b> <ul style="list-style-type: none"> <li>▪ Establish a commission for ECD</li> <li>▪ Build management capacity at local level agencies</li> <li>▪ Promote performance-based staff accreditation and promotion</li> <li>▪ Build information education and communication capacity</li> </ul> </li> </ul>
<b>Energy</b> Renewable Energy Development (PPTA and Loan) Gas System Restoration in Regional Towns (PPTA)	<ul style="list-style-type: none"> <li>• <b>Reduce regional imbalance of economic growth</b> <ul style="list-style-type: none"> <li>▪ Reach the energy poor and off-grid communities</li> <li>▪ Reduce poverty through low-cost options</li> </ul> </li> <li>• <b>Promote clean sustainable sources of energy</b> <ul style="list-style-type: none"> <li>▪ Establish pilot projects to demonstrate value and cost-effectiveness</li> <li>▪ Reduce impact of energy use on the environment</li> </ul> </li> <li>• <b>Provide capacity development and management</b> <ul style="list-style-type: none"> <li>▪ Strengthen agencies ability to identify, prioritize, evaluate, and implement renewable energy projects</li> </ul> </li> <li>• <b>Promote private sector development</b> <ul style="list-style-type: none"> <li>▪ Promote private sector involvement through tariff reforms and incentives</li> </ul> </li> </ul>
<b>Rural Development<sup>b</sup></b> Micro and Rural Finance (Loan) Mahalla Business Development (Grant)	<ul style="list-style-type: none"> <li>• <b>Deepen and broaden financial markets outside Baku</b> <ul style="list-style-type: none"> <li>▪ Extend the reach of commercial banks and products</li> </ul> </li> <li>• <b>Develop microfinance institutions for the poor</b> <ul style="list-style-type: none"> <li>▪ Provide capacity development and support to existing institutions</li> </ul> </li> </ul>
<b>Transportation</b> East–West Highway Improvement (Loan) Southern Road Corridor Improvement (PPTA and Loan) Secondary Roads Improvement (PPTA) Transport Sector Strategy (ADTA)	<ul style="list-style-type: none"> <li>• <b>Improve road operations and maintenance</b> <ul style="list-style-type: none"> <li>▪ Reorganize and strengthen regional road maintenance units</li> <li>▪ Implement road maintenance management system</li> <li>▪ Provide capacity development and maintenance equipment to support operations in project area</li> </ul> </li> <li>• <b>Promote axle load control</b> <ul style="list-style-type: none"> <li>▪ Improve regulations on axle load control</li> <li>▪ Strengthen capacity for monitoring axle loads</li> <li>▪ Raise public awareness on the need for axle load control</li> <li>▪ Develop program for establishing vehicle weighing stations</li> <li>▪ Support operations of vehicle weighing stations</li> </ul> </li> <li>• <b>Enhance road safety</b> <ul style="list-style-type: none"> <li>▪ Implement road safety plan</li> <li>▪ Strengthen the capacity of the Road Safety Committee</li> <li>▪ Develop road accident monitoring, reporting, and information systems</li> <li>▪ Enhance capacity for identifying accident black spots on the road network</li> <li>▪ Provide staff training for road safety in design of investment projects</li> <li>▪ Raise public awareness of road safety in the project area</li> </ul> </li> </ul>

Sector/Planned Intervention	Policy Focus and Content
	<ul style="list-style-type: none"> <li>• <b>Strengthen environmental and social impact management</b> <ul style="list-style-type: none"> <li>▪ Environmental and social impact assessments</li> <li>▪ Environmental and social management plans to mitigate potential negative effects</li> <li>▪ Monitoring and evaluation.</li> </ul> </li> <li>• <b>Enhance project implementation management</b> <ul style="list-style-type: none"> <li>▪ Strengthen project implementation units</li> <li>▪ Improve procedures and methods of procurement</li> <li>▪ Enhance monitoring and evaluation of project performance and impacts</li> </ul> </li> </ul>
<p><b>Urban Development<sup>c</sup></b>  Social Infrastructure for Internally Displaced Persons (Loan)  Social Infrastructure in Regional Towns (Loan)  City and Regional Development Strategies for Azerbaijan (Grant)</p>	<ul style="list-style-type: none"> <li>• <b>Address growing disparities between Baku and the regions</b> <ul style="list-style-type: none"> <li>▪ Improve infrastructure and access to services in regional towns</li> <li>▪ Target vulnerable communities and the poor, including IDPs</li> </ul> </li> <li>• <b>Promote decentralization for municipal planning and management</b> <ul style="list-style-type: none"> <li>▪ Increase functional responsibilities of municipalities</li> <li>▪ Address structure for fiscal devolution</li> <li>▪ Promote responsiveness, accountability and transparency</li> </ul> </li> <li>• <b>Enhance capacity for effective local governance</b> <ul style="list-style-type: none"> <li>▪ Increase participatory planning and management</li> <li>▪ Strengthen ability to identify, cost and implement priority projects</li> </ul> </li> </ul>
<p><b>Water Supply and Sanitation</b>  Community-Based Urban Water Supply and Sanitation Services (Grant)  Urban Water Supply and Sanitation II (PPTA)</p>	<ul style="list-style-type: none"> <li>• <b>Strengthen the institutional framework for water supply and sanitation</b> <ul style="list-style-type: none"> <li>▪ Promote autonomy and good corporate governance through open joint stock companies</li> <li>▪ Create operational and managerial capacity through performance-based management contracts</li> <li>▪ Improve operation and maintenance of facilities, including leak and infiltration control</li> <li>▪ Increase willingness to pay through improved service</li> <li>▪ Create foundation for eventual private sector involvement</li> <li>▪ Strengthen the institutional capacity for pollution control management</li> </ul> </li> <li>• <b>Incorporate economic considerations in investments</b> <ul style="list-style-type: none"> <li>▪ Develop systems of optimal size and capacity</li> </ul> </li> <li>• <b>Promote tariff reform</b> <ul style="list-style-type: none"> <li>▪ Set equitable tariffs to achieve financial sustainability and full cost recovery</li> <li>▪ Ensure affordability and universal access</li> <li>▪ Establish an independent regulator</li> </ul> </li> </ul>

ADTA = advisory technical assistance, PPTA = project preparatory technical assistance.

<sup>a</sup> Project components include health and nutrition, but the primary focus is on education. Future projects will focus exclusively on education.

<sup>b</sup> No new initiatives in the forward pipeline are planned for the agriculture and rural development sector.

<sup>c</sup> Interventions in the energy and water supply and sanitation sectors will be designed to promote development of regional towns. Education sector projects will also promote decentralization.

Source: Asian Development Bank.

**Table A1.9: Assistance Pipeline for Lending Products, 2006**

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)						
						OCR	ADB		Total	Gov't	Co- financing	
							ADF					
							Loans	Grants				
<b>2006 Firm Loans</b>												
<b>Finance</b>												
Micro and Rural Finance	TI	SEG/PSD	ECGF	2004 <sup>a</sup>	30.66	25.00	0.00	0.00	25.00	5.66	0.00	
<b>Subtotal</b>					<b>30.66</b>	<b>25.00</b>	<b>0.00</b>	<b>0.00</b>	<b>25.00</b>	<b>5.66</b>	<b>0.00</b>	
<b>Health, Nutrition, and Social Protection</b>												
Social Infrastructure for Internally Displaced Persons	TI	ISD/GOV	ECSS	2004	13.50	0.00	10.00	0.00	10.00	3.50	0.00	
Social Infrastructure in Regional Towns	TI	ISD/GOV	ECSS	2004 <sup>b</sup>	32.25	0.00	24.25	0.00	24.25	8.00	0.00	
Early Childhood Development	TI	ISD	ECSS	2004	27.00	0.00	20.00	0.00	20.00	7.00	0.00	
<b>Subtotal</b>					<b>72.75</b>	<b>0.00</b>	<b>54.25</b>	<b>0.00</b>	<b>54.25</b>	<b>19.50</b>	<b>0.00</b>	
<b>Transport and Communication</b>												
Southern Road Corridor Improvement	GI	SEG/RC	ECTC	2005	350.00	100.00	0.00	0.00	100.00	50.00	200.00	
<b>Subtotal</b>					<b>350.00</b>	<b>100.00</b>	<b>0.00</b>	<b>0.00</b>	<b>100.00</b>	<b>50.00</b>	<b>200.00</b>	
<b>Total</b>					<b>453.41</b>	<b>125.00</b>	<b>54.25</b>	<b>0.00</b>	<b>179.25</b>	<b>75.16</b>	<b>200.00</b>	
<b>2006 Standby Loans</b>												
<b>Education</b>												
Basic Education	GI	ISD	ECSS	2006	20.00	0.00	15.00	0.00	15.00	5.00	0.00	
<b>Energy</b>												
Renewable Energy Development	GI	ES/SEG	ECEN	2005	53.00	30.00	10.00	0.00	40.00	13.00	0.00	
<b>Total</b>					<b>73.00</b>	<b>30.00</b>	<b>25.00</b>	<b>0.00</b>	<b>55.00</b>	<b>18.00</b>	<b>0.00</b>	

ADB = Asian Development Bank, ADF = Asian Development Fund, ECEN = Energy Division, ECSS = Social Sectors Division, ECTC = Transport and Communication Division, ES = environmental sustainability, GI = general intervention, GOV = governance, ISD = inclusive social development, OCR = ordinary capital resources, RC = regional cooperation, SEG = sustainable economic growth, TI = targeted intervention.

<sup>a</sup> Prepared under an advisory technical assistance.

<sup>b</sup> Prepared under the project preparatory technical assistance for the Social Infrastructure for Internally Displaced Persons project.

Source: Asian Development Bank estimates.



Table A1.10: Assistance Pipeline for Nonlending Products and Services, 2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2006</b>							
<b>Education</b>							
1. Basic Education	ECSS	PPTA	JSF	600.00		0.00	600.00
<b>Subtotal</b>				<b>600.00</b>		<b>0.00</b>	<b>600.00</b>
<b>Energy</b>							
1. Gas System Restoration in Regional Towns	ECEN	PPTA	JSF	500.00		0.00	500.00
<b>Subtotal</b>				<b>500.00</b>		<b>0.00</b>	<b>500.00</b>
<b>Transport and Communication</b>							
1. Secondary Roads Improvement	ECTC	PPTA	TASF	500.00		0.00	500.00
<b>Subtotal</b>				<b>500.00</b>		<b>0.00</b>	<b>500.00</b>
<b>Water Supply, Sanitation, and Waste Management</b>							
1. Urban Water Supply and Sanitation II	ECSS	PPTA	TASF	500.00		0.00	500.00
2. Community-Based Urban Water Supply and Sanitation Services	ECSS	Grant		0.00	JFPR	1,000.00	1,000.00
<b>Subtotal</b>				<b>500.00</b>		<b>1,000.00</b>	<b>1,500.00</b>
<b>Total</b>				<b>2,100.00</b>		<b>1,000.00</b>	<b>3,100.00</b>
<b>Standby 2006</b>							
<b>Water Supply, Sanitation, and Waste Management</b>							
1. Samur-Absheron Water Supply	ECSS	PPTA	TASF	500.00		0.00	500.00
<b>Total</b>				<b>500.00</b>		<b>0.00</b>	<b>500.00</b>

ADB = Asian Development Bank, ECEN = Energy Division, ECSS = Social Sectors Division, ECTC = Transport and Communication Division, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, PPTA = project preparatory technical assistance, TASF = technical assistance special fund.

Source(s): Asian Development Bank estimates.

## CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for the following lending products:

- (i) Table A2.1: Social Infrastructure for Internally Displaced Persons
- (ii) Table A2.2: Social Infrastructure for Regional Towns
- (iii) Table A2.3: Early Childhood Development
- (iv) Table A2.4: Southern Road Corridor Improvement
- (v) Table A2.5: Renewable Energy Development

**Table A2.1: Social Infrastructure for Internally Displaced Persons  
Concept Paper**

**Date:** November 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Water supply, sanitation, and waste management Subsector: Integrated</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, public governance, other vulnerable groups</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                   <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/ East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer(s):</b> Shane Rosenthal</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background and link to country or regional strategy.</b> Despite an impressive growth in GDP there is a growing disparity between Greater Baku and regional towns. Economic opportunities in regional towns are hampered by a lack of adequate infrastructure and weak capacity for local governance. A decade after the beginning of the conflict over Nagorno-Karabakh, approximately 800,000 refugees and internally displaced persons (IDPs) still live in temporary shelters where living conditions are deplorable.</p> <p>This project supports the State Program for Improvement of Living Conditions and Increase of Employment Among IDPs and Refugees. It is in line with the overall ADB strategy toward Azerbaijan of reducing poverty</p>								

through improving human development, and with strengthening the effective provision of essential public goods and services to those in greatest need.

- b. Goal and purpose:** This project is aimed at improving the living conditions of IDPs in three regional towns
- c. Components and outputs:** Components identified by ongoing PPTA activities are: (i) social infrastructure for IDP (improved housing in three towns), and (ii) capacity building.
- d. Expected results and deliverables:** To be finalized during the PPTA.
- e. Social or environmental issues or concerns:** The following social issues will be addressed: (i) mainstreaming of gender concerns, (ii) likely negative or positive impacts of the projects on indigenous people, and (iii) involuntary resettlement effects of the project. Assistance to the IDP population should be carefully formulated to minimize tension with the local non-IDP population, which would not have access to the assistance.
- f. Plans for disseminating results/deliverables:** Participation of IDPs and local communities will be crucial in ensuring success of the project.

**7. Proposed executing/implementing agencies:** State Committee for Refugees and IDPs

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The proposed project has been discussed with the Ministry of Economic Development, the State Committee for Refugees and Internally Displaced Persons, and the Azerbaijan Reconstruction and Rehabilitation Agency. Additional discussions with local officials, community groups, and internally displaced persons are taking place under PPTA activities.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001 (Under original name of New Settlements Basic Infrastructure Services)
- b. Expected date of submission for approval  
Lending: 2006  
Nonlending (project preparatory): 2004  
Nonlending (other than project preparatory):
- c. Period and duration of assistance  
Lending: 2006–2010  
Nonlending: 2005-06, 12 months

**10. Financing Plan**

- a. For lending  
 Ordinary capital resources: \$  
 Asian Development Fund: \$10 million  
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.  
If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	10.00
Government Financing	3.30
Other Financing	0.00
<b>Total Cost</b>	<b>13.30</b>

Source: Asian Development Bank estimates.

- b. For nonlending
- No resources required, other than ADB staff
  - ADB's administrative budget: \$
  - Grant TA funds: \$840,000 (JSF)
  - Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

<b>Source</b>	<b>Amount (\$)</b>
ADB Financing	840,000
Government Financing	215,000
Other Financing	
<b>Total Cost</b>	<b>1,055,000</b>

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, ADF = Asian Development Fund, CSP = country strategy and program, GDP = gross domestic product, IDPs = internally displaced persons, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.

**Table A2.2: Social Infrastructure for Regional Towns  
Concept Paper**

**Date:** November 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Water supply, sanitation, and waste management Subsector: Integrated</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, public governance, other vulnerable groups</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                   <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/ East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer(s):</b> Shane Rosenthal</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Despite impressive growth in GDP there is growing disparity between Greater Baku and regional towns. Economic opportunities in regional towns are hampered by a lack of adequate infrastructure and capacity for local governance.</p> <p>This project supports the State Program for Poverty Reduction and the State Program for Social and Economic Development of the Regions. It is in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving human development, and with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.</p> <p><b>b. Goal and purpose:</b> This project is aimed at improving the living conditions of the poor in regional towns.</p>								

**c. Components and outputs:** Components identified by ongoing PPTA activities are: (i) social infrastructure (improved housing in three towns) for internally displaced persons (IDPs); (ii) social infrastructure for regional towns; (iii) local initiative facility (support for small-scale community driven infrastructure improvements); and (iv) capacity building for local governance.

**d. Expected results and deliverables:** To be finalized during the PPTA.

**e. Social or environmental issues or concerns:** The following social issues will be addressed: (i) mainstreaming of gender concerns, (ii) likely negative or positive impacts of the projects on indigenous people, and (iii) involuntary resettlement effects of the project.

**f. Plans for disseminating results/deliverables:** Participation of local communities will be crucial in ensuring success of the project.

**7. Proposed executing/implementing agencies:** Ministry of Economic Development

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The proposed project has been discussed with the Ministry of Economic Development, the State Committee for Refugees and Internally Displaced Persons, and the Azerbaijan Reconstruction and Rehabilitation Agency. Additional discussions with local officials, community groups, and internally displaced persons are taking place under PPTA activities.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001 (Under original name of New Settlements Basic Infrastructure Services)

b. Expected date of submission for approval  
Lending: 2006  
Nonlending (project preparatory): 2004  
Nonlending (other than project preparatory):

c. Period and duration of assistance  
Lending: 2006–2010  
Nonlending: 2005-06, 12 months

**10. Financing Plan**

- a. For lending
- Ordinary capital resources: \$
  - Asian Development Fund: \$24.25 million
  - Other: \$

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	24.25
Government Financing	8.00
Other Financing	0.00
<b>Total Cost</b>	<b>32.25</b>

Source: Asian Development Bank estimates.

- b. For nonlending
- No resources required, other than ADB staff
  - ADB's administrative budget: \$
  - Grant TA funds: \$840,000 (JSF)
  - Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.  
 If known, provide cost estimates and financing arrangements.

<b>Source</b>	<b>Amount (\$)</b>
ADB Financing	840,000
Government Financing	215,000
Other Financing	
Total Cost	1,055,000

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, ADF = Asian Development Fund, CSP = country strategy and program, GDP = gross domestic product, IDP = internally displaced persons, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.



**Table A2.3: Early Childhood Development  
Concept Paper**

**Date:** September 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> ADF grant-financed</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Health, nutrition, and social protection Subsector: Early childhood development</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Theme:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Human development, other vulnerable groups</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                   <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/ East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Rie Hiraoka</p>								
<p><b>6. Description of assistances</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The conflict with Armenia and the process of transition from a centrally planned to a market economy have led to a severe deterioration in the health of the population, especially among the most vulnerable groups, including internally displaced persons (IDPs), the unemployed, women, and children. There are indications that children's psychosocial development has also been hampered by increasing poverty and declining public services.</p> <p>This project is in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving human development. It is also in line with the first prong of ADB's strategy of strengthening the effective</p>								

provision of essential public goods and services to those in greatest need.

**b. Goal and purpose:** The proposed project is aimed at enhancing human development by providing services and supporting activities that ensure survival and promote development of Azerbaijan's children, particularly those who are most vulnerable and disadvantaged, including internally displaced children.

**c. Components and outputs:** There will be four components: (i) improving access to and quality of preschools, (ii) promoting health and nutrition practices for early childhood development (ECD); (iii) piloting community-based ECD services; and (iv) capacity building and management.

**d. Expected results and deliverables:** Improved development status of young children

**e. Social or environmental issues or concerns:** None.

**f. Plans for disseminating results/deliverables:** Annual ECD conference to be organized.

**7. Proposed executing/implementing agencies:** Ministry of Education.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The proposed project has been discussed with the Ministry of Education and the Ministry of Health and both ministries are in agreement about its appropriateness and urgency. The Ministry of Education, the Executing Agency, has been actively involved in designing the project.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001

b. Expected date of submission for approval  
 Lending: 2006  
 Nonlending (project preparatory): 2005  
 Nonlending (other than project preparatory):

c. Period and duration of assistance  
 Lending: 2006–2010  
 Nonlending: 2005, 8 months

**10. Financing Plan**

- a. For lending
- Ordinary capital resources: \$
  - Asian Development Fund: \$20 million
  - Other: \$

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	20.0
Government Financing	7.0
Other Financing	0.0
<b>Total Cost</b>	<b>27.0</b>

Source: Asian Development Bank estimates.

- b. For nonlending
- No resources required, other than ADB staff
  - ADB's administrative budget: \$
  - Grant TA funds: \$600,000 (TASF)
  - Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.  
 If known, provide cost estimates and financing arrangements.

<b>Source</b>	<b>Amount (\$'000)</b>
ADB Financing	600.0
Government Financing	150.0
Other Financing	0.0
<b>Total Cost</b>	<b>750.0</b>

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, CSP = country strategy and program, ECD = early childhood development, IDP = internally displaced persons, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.

**Table A2.4: Southern Road Corridor Improvement  
Concept Paper**

**Date:** May 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Project loan</li> <li><input type="checkbox"/> Program loan</li> <li><input type="checkbox"/> Sector loan</li> <li><input type="checkbox"/> Sector development program loan</li> <li><input type="checkbox"/> ADF grant-financed</li> <li><input type="checkbox"/> Other:</li> </ul> <p><input checked="" type="checkbox"/> Nonlending</p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Project preparatory</li> <li><input type="checkbox"/> Other than project preparatory <ul style="list-style-type: none"> <li><input type="checkbox"/> Economic, thematic, and sector work</li> <li><input type="checkbox"/> Institutional development</li> </ul> </li> <li><input type="checkbox"/> Other:</li> </ul>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport and communications Subsector: Roads and highways</p> <p>b. For project preparatory and lending, classification</p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Targeted intervention</li> <li><input type="checkbox"/> General intervention</li> </ul> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input checked="" type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, institutional development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input checked="" type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Transport and Communications Division/ East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Hasan Masood</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The transport sector plays an important role in Azerbaijan's rapidly growing economy with a current GDP growth rate of 14.5% that is projected to increase to 22% by 2007. Road transport accounts for 78% of the passenger and 28% of the goods traffic and is critical for the domestic economy as it links the local population with urban and international markets.</p> <p>The transport sector in general and the road subsector in particular help to improve regional cooperation and facilitate development of international and transit trade. Acting as a land bridge, Azerbaijan offers the most feasible transport corridor connecting (i) Central Asia and the People's Republic of China with Europe through the east-west (EW) road corridor that is part of the Silk route and (ii) Middle East and South Asia with Russia</p>								

and Europe through the north–south (NS) road corridor.

The Government assigns high priority to the development of the EW and NS road transport corridors and is keen to improve them over the next 3-5 years in anticipation of substantial international and transit trade. With assistance from international financial institutions (IFIs), improvements to the entire EW corridor are now fully funded and negotiations are underway for the northern section (Baku–Russian border) of the NS corridor. For the southern section (Baku–Iranian border), the Government is seeking assistance from IFIs, including ADB. As part of a bilateral agreement with Iran for financing the construction of a section of the road and consulting services for a feasibility study and detailed design, an Iranian consulting firm began work in January 2005.

The project is one of the four strategically selected areas for ADB assistance in Azerbaijan and is in line with the poverty reduction strategy outlined in the Azerbaijan State Program on Poverty Reduction and Economic Development (SPPRED) that included, among others, improvements to road infrastructure.

**b. Goal and purpose:** The goal of the project is to facilitate development of the NS corridor to reduce transport costs and improve regional cooperation by connecting the Middle East and South Asia markets with Azerbaijan, Russia and Europe. The project will also contribute to economic development of the southern region of Azerbaijan by providing better access to the population centers. The objective of the project is to improve a section of the road from Alat (south of Baku City) to Astara (on the Iran border), develop the cross-border facility at Astara, support sectoral policy and institutional reforms, and provide accessibility to poor areas in the south of the country.

**c. Components and outputs:** The project will (i) improve a section of the 243 kilometer (km) Alat–Astara road; (ii) develop a cross-border facility at Astara; (iii) provide access to poor communities along the road, (iv) build the institutional capacity of the Road Transport Service Department; and (v) address road sector policy issues involving rationalizing road user charges for maintenance funding, ensuring effective maintenance, controlling vehicle overloading, minimizing environment and social impacts, and enhancing road safety. A PPTA project will determine the scope of the project.

**d. Expected results and deliverables:** The outputs include (i) reduced transport costs on the NS corridor, (ii) enhanced regional cooperation and trade due to improved access to the Middle Eastern and South Asian markets in the south and to the Russian Federation and Europe in the north, and (iii) economic development of Azerbaijan's southern region due to increased mobility.

**e. Social or environmental issues or concerns:** Social and environmental issues will be addressed and strictly monitored during project design and implementation. Safeguard compliance issues will be mitigated and monitored through (i) a resettlement framework and plan, (ii) an indigenous people's plan, (iii) environmental impact assessment or initial environmental examination, and (iv) an environmental management plan. Consultation with stakeholders, including civil society, NGOs, road users and the poor, will be important for optimal project design and to address the key issues.

**f. Plans for disseminating results/deliverables:** Workshops with stakeholders will be held during PPTA implementation and loan processing. A summary of the final report and resettlement framework and plan will be posted on Government and ADB web sites.

**For TA, method(s) of TA output dissemination:**

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including [www.adb.org](http://www.adb.org)
- Internal press release in *ADB Today*
- Others (specify) \_\_\_\_\_

**7. Proposed executing/implementing agencies:** The Road Transport Service Department under the Ministry of Transport (MOT) will be the executing agency.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** A consultation with stakeholders, including road users, and the poor living along the roads, will be held during PPTA fact-finding and will continue during PPTA implementation and loan processing. Consultation meetings will involve all stakeholders, particularly the poor, and will be used to formulate and agree upon the scope of the project.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: CSPU 2005
- b. Expected date of submission for approval
  - Lending: 2006/2007
  - Nonlending (project preparatory): 2005
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending: 2006–2011
  - Nonlending: 6 months (October 2005 – March 2006)

**10. Financing Plan**

- a. For lending
  - Ordinary capital resources: \$100 million
  - Asian Development Fund (loan): \$
  - Asian Development Fund (grant): \$
  - Other: \$

If cofinancing is required, indicate amount and sources sought: \$200 million, from World Bank and other bilaterals.

- b. For nonlending
  - No resources required, other than ADB staff
  - ADB's administrative budget: \$
  - Grant TA funds: \$600,000
  - Other:

ADB = Asian Development Bank, CSP = country strategy and program, GDP = gross domestic product, IFI = international financial institutions, NGO = nongovernment organization, PPTA = project preparatory technical assistance, SCSP = subregional country strategy and program, SPPRED = State Program on Poverty Reduction and Economic Development TA = technical assistance, TASF = technical assistance special fund.

**Table A2.5: Renewable Energy Development  
Concept Paper**

**Date:** August 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> ADF grant-financed</p> <p>    <input type="checkbox"/> Other</p> <p><input type="checkbox"/> Nonlending</p> <p>    <input type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Energy Subsector: Renewable energy generation</p> <p>b. For project preparatory and lending, classification</p> <p>    <input type="checkbox"/> Targeted intervention</p> <p>    <input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, cleaner production and control of industrial pollution</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Energy Division/ East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer(s):</b> To be appointed.</p>								
<p><b>6. Description of assistance(s)</b></p> <p><b>Background/linkage to country/regional strategy:</b> In Azerbaijan, the domestic energy sector (power, gas and heating), is facing systemic collapse because of the limited maintenance of aging infrastructure and underinvestment. The available power generation capacity is about 4.1 gigawatt (GW), compared with estimated peak demand of 5 GW, causing frequent and prolonged breakdowns of power supply in areas outside Baku city. During the winter of 2004/05, the power supply was restricted to 10-12 hour per day in regional areas. The situation is expected to get worse. The Government has drawn up extensive plans to add power generation capacity using gas fired power plants. However, this is unlikely to provide much relief</p>								

to rural regional consumers as these consumers are at the far end of power network, which has serious power transmission and distribution constraints. Poor power supply has aggravated regional imbalances.

Decentralized electrification through renewable energy (e.g., solar and wind energy) offers a competitive option for the regions. Such renewable energy projects are also very attractive from an environmental point of view.

The electricity supply in rural Azerbaijan, where 48% of the population lives, is unreliable and affects the impeding the operation of irrigation system and therefore crop production and agricultural processing. The irrigation canals and reservoirs have the potential for power generation through small hydropower developments, another low-cost option.

Alternative and renewable energy development is promoted in the 2004 State Program On Use of Alternative and Renewable Energy Sources. One of the focuses of ADB policy in the energy sector is the development of renewable energy resources.

- b. Impact and outcome:** The impact of the Project will be a reduction in the regional imbalance of economic growth through provision of reliable and environmentally clean energy.
- c. Components and outputs:** The Project will include implementation of three small hydropower sites, one wind power project, a set of 50 solar powered home systems and three community-based solar and wind hybrid systems.
- d. Expected results and deliverables:** The project will provide about 50 MW of generation capacity, including (i) 20 MW small hydropower projects on existing irrigation canals and dams; (ii) 30 MW wind power projects in the Nachichevan region; and (iii) 50 sets of solar home systems for remote households and three community-based solar and wind hybrid systems in remote rural regional areas. The project will strengthen the capacities of ministries and agencies to identify, prioritize, evaluate and implement renewable energy projects. It will pilot small hydro, solar, wind, and hybrid systems which will bring out strengths, weaknesses and opportunities in implementation of renewable energy projects to enable the Government to formulate strategies on public-private sector participation, tariffs and incentives to enhance the sustainability of renewable energy projects
- e. Social or environmental issues or concerns:** The Project will have no adverse social or environmental impacts. Instead, there will be substantial positive environmental impacts.
- f. Plans for disseminating results/deliverables:** To be developed during project preparation.

**7. Proposed executing/implementing agencies:** The Ministry of Energy will be the Executing Agency. Azerenergy will be the Implementing Agency.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The project concept, scope and implementation arrangements have been finalized in close consultation with all key stakeholders: the Ministry of Economic Development (MOED), Ministry of Energy, Azerenergy, Melioration and Water Economy Committee (MWEC under Cabinet of Ministers), and the Azerbaijan National Academy of Science.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending: 2007 (firm)
  - Nonlending (project preparatory): 2006 (firm)
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending: To be defined during project preparation
  - Nonlending: July 2006 – September 2007



**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

- Ordinary capital resources: \$30 million
- Asian Development Fund: \$10 million
- Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds : \$500,000
- Other:

If cofinancing is required indicate sources, and amount sought: Finnish TA Grant Fund \$200,000

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing): The total TA grant will be \$700,000.

ADB = Asian Development Bank, CSP = country strategy and program, CSPU = country strategy and program update, MOED = Ministry of Economic Development, MOED = Ministry of Economic Development, MWEC = Melioration and Water Energy Committee, SCSP = subregional country strategy and program, TA = technical assistance.

**Table A2.6: Micro and Rural Finance Development Project  
Concept Paper**

Date: 27 November 2005

<p><b>1. Type/modality of assistance</b> (double-click on appropriate box)</p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p>    <input type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other: Piggybacked</p>									
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Finance Subsector: Microfinance</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Theme:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Promoting economic efficiency and enabling markets, financial and economic governance</p>		<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability								
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation								
<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development								
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development								
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>									
<p><b>4. Responsible division/department:</b> Governance, Finance, and Trade Division/East and Central Asia Department</p>									
<p><b>5. Responsible ADB officer(s):</b> Betty Wilkinson, Lu Shen, Sona Shrestha</p>									
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b></p> <p>With 43 banks and combined credit outstanding of \$945 million (12% of GDP), the banking system dominates Azerbaijan's financial sector. The sector also includes a number of nonbank credit organizations (NBCOs), AgrarCredit, 12 microfinance institutions (MFIs), three small business lenders, 28 small credit unions, 30 pawnshops, 29 insurance companies and five brokers, and seven leasing companies. Remittances are estimated at \$1 billion per year from both official and unofficial channels, sent mainly from Russia, Turkey, and Iran, and are important for rural</p>									

producers.

The development of the microfinance sector in Azerbaijan began with international nongovernment organizations providing humanitarian assistance in the mid-1990s. These have since become separate legal entities, expanded their coverage, and become more professionally managed. By law their services are restricted to lending. Almost all microfinance activity has been concentrated in rural areas. MFIs provide loans for small and microenterprises, in farming, livestock, agribusiness, trading, and services. Loan amounts range from \$50 to \$40,000 with most in the range of \$222 to \$470. Most MFIs started with group-based lending but now also provide individual loans. Borrowers are generally near or below the poverty line.

As of 30 December 2005, the MFIs had 33,324 active borrowers, ranging from 200 to 20,000 active clients per institution, and approximately 24% of clients were women. The overall outstanding loan portfolio was \$12.8 million. Four MFIs have loan portfolios at or over \$1 million and three have outstanding loan portfolios of over \$500,000. Coverage is still very low, as microfinance reaches only 7.0% of an estimated 670,000 rural households. The MFIs' management ability and general reporting capacity is strong for a young market, although training and technical support are needed.

Key reasons for the underdevelopment of microfinance include:

- (i) legal and regulatory barriers to market entry and development of MFIs and credit unions;
- (ii) lack of funds to enable significant expansion of programs to reach full financial self-sufficiency;
- (iii) poor information flows and inability to meet international reporting requirements to attract investment;
- (iv) insufficient numbers of well-trained professional MFI staff, particularly at mid-levels; and
- (v) lack of capacity to develop a wide range of financial services for the poor, including savings and remittance services, once legal barriers are removed.

**Government's Request/Links to CSP/U.** The proposed project was included in 2005-2006 CSPU as Micro and Rural Finance Project. It had three components: (i) the microfinance development facility, a line of credit to MFIs for onlending to rural households, including to substantial numbers of families living below the poverty line; (ii) the rural banking development facility, a long-term debt facility for participating commercial banks (PCB) to help them to expand their branch operations and e-banking services outside Baku; and (iii) capacity building for PCBs, MFIs, and the MOED. However, the Government has requested that the loan be reformulated to (i) minimize the cost associated with project implementation arrangements, and (ii) to focus solely on support for microfinance development.

**b. Goal and purpose:**

The goal of the proposed project is to deepen and broaden financial inclusion for households and businesses in Azerbaijan. Its purpose is to increase access MFI services outside Baku, particularly financial services to poor households.

**c. Components and outputs:**

The proposed project will include: (i) a line of credit for expansion of microfinance institution operations, and (ii) institutional strengthening of MFIs and related government institutions. The line of credit will provide long-term funds to MFIs to help (i) meet the financing gap until MFIs can mobilize resources under the new microfinance legislation expected in 2006, or until they are able to attract additional investment; and (ii) expand MFI services to rural households. The MFIs will receive loans for up to 12 years, with borrowing costs reflecting market interest rates.

**d. Expected results and deliverables:**

The Project will enhance rural and poor households' economic opportunities by enabling sustainable MFIs with expanded financial services to their target clients in rural areas. With funding from the Project, MFIs will be able to increase the number of borrowers by at least 90,000 by project completion. At the same time the expansion in their loan portfolios, work on international reporting and equity options, and proactive work by Government will enable at least five MFIs to become fully financially sustainable and to attract new investment. Institutional strengthening and technical improvements will encourage MFIs to provide better deposit services and to mobilize deposits. Greater competition will in turn increase efficiency in the market and lower costs of financial services to clients.

**e. Social or environmental issues or concerns:** There are no anticipated social or environmental concerns.

<p><b>f. Plans for disseminating results/deliverables:</b> Periodic project reports, and workshops.</p>
<p><b>7. Proposed executing/implementing agencies (for both loan and TA):</b> The Ministry of Economic Development (MOED) will be the Executing Agency. The National Bank of Azerbaijan (NBA) will be the Implementing Agency:</p>
<p><b>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:</b></p> <p>MOED has led national discussions on a national rural and microfinance strategy, and is the chair of the national project steering committee.</p> <p>Consultation has been broad and thorough. The views and opinions of the Azerbaijan Micro Finance Association (AMFA), the Azerbaijan Credit Unions Association, and various individual NGOs providing microcredit have been sought. The MFIs are highly vocal about the urgent need for financing to expand their portfolios, and the need for specific and targeted training and capacity development options.</p>
<p><b>9. Timetable for assistance design, processing, and implementation</b></p> <p>a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2006</p> <p>b. Expected date of submission for approval  Lending: March 2006  Nonlending (project preparatory):  Nonlending (other than project preparatory):</p> <p>c. Period and duration of assistance  Lending: Four years</p>
<p><b>10. Financing Plan</b> (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input checked="" type="checkbox"/> Ordinary capital resources: \$25 million with the possibility of exploring the use of multi-tranche financing facility</p> <p><input type="checkbox"/> Asian Development Fund:</p> <p><input type="checkbox"/> Other:</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget:</p> <p><input type="checkbox"/> Grant TA funds:</p> <p><input type="checkbox"/> Other:</p>

ADB = Asian Development Bank, CSP = country strategy and program, GDP = gross domestic products, MFI = microfinance institutions, MOED = Ministry of Economic Development, NBA = National Bank of Azerbaijan, NBCO = nonbank credit organizations, PCB = participating commercial bank, SCSP = subregional cooperation strategy and program, TA = technical assistance.

## **CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES**

This appendix contains the concept papers for the following nonlending products and services:

- (i) Table A3.1: Basic Education Development
- (ii) Table A3.2: Gas System Restoration in Regional Towns
- (iii) Table A3.3: Secondary Roads Improvement
- (iv) Table A3.4: Urban Water Supply and Sanitation II
- (v) Table A3.5: Affordable Services and Water Conservation for the Urban Poor
- (vi) Table A3.6: Samur–Absheron Water Supply

**Table A3.1: Basic Education Development  
Concept Paper**

**Date:** September 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> ADF grant-financed</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Education Subsector: Basic education</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Theme:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subtheme: Human development</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                   <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Rie Hiraoka</p>								
<p><b>6. Description of assistances</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Following independence, education sector budgets were cut back drastically. Problems facing schools include management weaknesses, a decline in the learning environment, outdated curricula and learning methods, low teacher salaries, and major shortcomings in teacher training. ADB is helping the Government to address preschool issues through the Early Childhood Development Project, which is expected to be approved in early 2006. The World Bank is supporting sector reforms under the Education Sector Development Project that was approved in 2003. However, the needs of the education sector are enormous, particularly for textbooks and learning materials, teacher training, and improving the learning environment in schools.</p>								

This project is in line with the overall ADB strategy toward Azerbaijan of reducing poverty through improving human development. It is also in line with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.

**b. Impact and outcome:** The project will improve the quality of and access to basic education in Azerbaijan. Specifically, the project will lead to a better learning environment, higher quality of teaching and learning, and access to primary and secondary education in selected districts.

**c. Components and outputs:** Project preparatory TA (PPTA) will determine the detailed scope of the project, which is expected to include learning materials and textbook development and provision; strengthening of teacher training; and rehabilitation, upgrading and equipment provision for priority schools. Selection of participating districts will be based on poverty levels and other criteria, and on the need to ensure complementarity with support from the World Bank and other donors.

**d. Expected results and deliverables:** To be finalized during PPTA.

**e. Social or environmental issues or concerns:** Likely negative or positive impacts of the projects on indigenous people will be determined during PPTA. No negative environmental impact is envisaged, and this will be reviewed and confirmed during PPTA.

**f. Plans for disseminating results/deliverables:** Participatory workshops will be conducted during project preparation to consult with key stakeholders.

**7. Proposed executing/implementing agencies:** Ministry of Education

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The proposed project has been discussed with the Ministry of Education, which is in agreement about its appropriateness and urgency.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending: 2007
  - Nonlending (project preparatory): 2006
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending: 2007-2011
  - Nonlending: 2006, 6 months

**10. Financing Plan**

- a. For lending
  - Ordinary capital resources: \$
  - Asian Development Fund: \$15 million
  - Other: \$

If cofinancing is required, indicate amount and sources sought: \$ \_\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	15.0
Government Financing	5.0
Other Financing	0.0
<b>Total Cost</b>	<b>20.0</b>

Source: Asian Development Bank estimates.

- b. For nonlending

- No resources required, other than ADB staff  
 ADB's administrative budget: \$  
 Grant TA funds: \$600,000 (TASF)  
 Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

<b>Source</b>	<b>Amount (\$'000)</b>
ADB Financing	600.0
Government Financing	150.0
Other Financing	0.0
<b>Total Cost</b>	<b>750.0</b>

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, CSP = country strategy and program, PPTA = project preparatory technical assistance, RCSP = regional cooperation strategy and program, TA = technical assistance, TASF = technical assistance special fund.



**Table A3.2: Gas System Restoration in Regional Towns  
Concept Paper**

**Date:** August 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> ADF grant-financed</p> <p><input type="checkbox"/> Other</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>								
<p><b>2. Assistance focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Energy Subsector: Transmission and distribution</p> <p>b. Targeting classification</p> <p><input type="checkbox"/> Targeted intervention</p> <p><input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Theme:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, urban environmental improvement</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Energy Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer(s):</b> To be assigned</p>								
<p><b>6. Description of assistance(s)</b></p> <p>a. <b>Background/linkage to country/regional strategy:</b> Azerbaijan has large natural gas reserves which are being exploited to meet domestic energy needs (including power generation) and exports. At the time of independence, almost all urban residents and 80% of rural residents had access to the gas supply. Now, large parts of the country have no access to piped gas, which is restricted to large urban and industrial areas primarily in the Greater Absheron Peninsula area and along the Western corridor. Poor gas services have increased regional inequality. The failure of the gas distribution system in regional areas is exacerbating an already overloaded power system, causing frequent breakdowns during peak demand months. The absence of a gas supply in regional areas has led to consumers switching to more polluting and inefficient fuels.</p>								

Since 2000, the Government has imported gas from the Russian Federation. With the availability of additional gas from the Shah-Deniz gas field and future gas exploration, it is expected that, by 2009, Azerbaijan will be able to meet all of its domestic demands. Gas system rehabilitation and restoration of gas supplies in regional areas is a priority of the State Program for Development of Energy and Fuel Sector (2005 – 2015). The Government aims to restore gas supplies to all regional areas by 2008.

ADB energy sector strategy aims for balanced regional development through rehabilitation of energy infrastructure, particularly the gas supply system in regional areas. The project loan will be a firm loan for 2007. Project preparatory technical assistance (PPTA) will be included in the 2006 program. The PPTA will identify regional areas and undertake a detailed technical and economic feasibility evaluation.

- b. Impact and outcome:** The PPTA will help to reduce regional economic imbalances by laying the foundations for a loan project to restore the gas supply infrastructure.
- c. Components and outputs:** The Project will rehabilitate and replace the gas transmission and distribution network in five regional centers. Under the PPTA, the consultants will (i) undertake an audit of the existing gas infrastructure to identify worn-out pipelines; (ii) identify an appropriate way of retro-fitting apartment buildings; (iii) develop plans for 100% metering of all consumers; (iv) check the feasibility of the modern Supervisory Control And Data Acquisition (SCADA) system to improve the efficiency of gas transmission and distribution system; (v) identify the potential for carbon emission reduction under the clean development mechanism (CDM) and other incentives available under Global Environment Fund (GEF).
- d. Expected results and deliverables:** Feasibility study of a project suitable for ADB financing.
- e. Social or environmental issues or concerns:** The Project will have no adverse social or environmental impacts. Instead there will be substantial positive environmental impacts.
- f. Plans for disseminating results/deliverables:** To be developed during project preparation.

**7. Proposed executing/implementing agencies:** The Ministry of Energy will be the Executing Agency. Azereigas will be the Implementing Agency.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The project concept, scope and implementation arrangements have been finalized in close consultation with all key stakeholders: the Ministry of Economic Development (MOED), the Ministry of Energy, Azerigas, and the executive body of regional centers.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2005
- b. Expected date of submission for approval
  - Lending: 2007 (firm)
  - Nonlending (project preparatory): 2006 (firm)
  - Nonlending (other than project preparatory):
- c. Period and duration of assistance
  - Lending: To be defined during project preparation
  - Nonlending: April 2006 – June 2007

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - Ordinary capital resources: \$ 25 million
  - Asian Development Fund: \$15 million
  - Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds : \$500,000
- Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CDM = clean development mechanism, CSP = country strategy and program, CSPU = country strategy and program update, GDP = gross domestic product, GEF = Global Environment Fund, MOED = Ministry of Economic Development, PPTA = project preparatory technical assistance, TA = technical assistance, SCADA = Supervisory Control And Data Acquisition.

**Table A3.3: Secondary Roads Improvement  
Concept Paper**

**Date:** May 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> ADF grant-financed</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport and communications Subsector: Roads and highways</p> <p>b. For project preparatory and lending, classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic area(s)</p> <p>Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, developing rural areas, institutional development.</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Transport and Communications Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Hasan Masood</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Better roads stimulate economic growth in less developed areas, reduce poverty, and improve access to education, health and other social services. Poverty incidence is high among the rural poor in Azerbaijan. The project is in line with the State Program on Poverty Reduction and Economic Development (SPPRED), which includes improvements to road infrastructure. The project follows ADB's strategy towards Azerbaijan, which supports improvements to roads as one of the four key areas of assistance.</p> <p><b>b. Goal and purpose:</b> The objectives of the Project are to (i) reduce rural poverty and increase access for rural populations to markets and social services by improving and rehabilitating the secondary roads, (ii) preserve road infrastructure assets by strengthening the institutional capacity of road agency at local levels,</p>								

(iii) improve efficiency of road maintenance and management activities, and (iv) identify and mobilize resources for sustaining the secondary road network.

**c. Components and outputs:** The outputs include (i) a feasibility study of the rehabilitation of priority secondary roads, including meeting safeguard compliance requirements; (ii) poverty-focused interventions in the Project area; (iii) institutional strengthening and sector-reform proposals; and (iv) a project framework including monitoring indicators for development impacts and baseline data.

**d. Expected results and deliverables:** The expected results of the Project are (i) a reduction in rural poverty and an increase in access for rural populations to markets and social services, (ii) better utilization of resources, and (iii) stronger institutional capacity for development and maintenance.

**e. Social or environmental issues or concerns:** Social and environmental aspects will be addressed in accordance with the ADB guidelines.

**f. Plans for disseminating results/deliverables:** The Project will share results and lessons learned with stakeholders, development partners, and beneficiaries through appropriate media including Government and ADB websites.

**For TA, method(s) of TA output dissemination:**

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) \_\_\_\_\_

**7. Proposed executing/implementing agencies:** The Road Transport Service Department (RTSD) under the Ministry of Transport (MOT) will be the Executing Agency. RTSD's regional and local offices will also participate as implementing agencies.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** The full involvement of the executing and other relevant government agencies is expected. Active involvement of civil society and other stakeholders will be sought.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: CSPU 2005
- b. Expected date of submission for approval
  - Lending: 2008
  - Nonlending (project preparatory): 2006
  - Nonlending (other than project preparatory): Not applicable
- c. Period and duration of assistance
  - Lending: 2008-2012
  - Nonlending: 6 months

**10. Financing Plan**

- a. For lending
  - Ordinary capital resources: \$75 million
  - Asian Development Fund (loan): \$
  - Asian Development Fund (grant): \$
  - Other: \$

If cofinancing is required indicate sources, and amount sought:

- b. For nonlending
  - No resources required, other than ADB staff
  - ADB's administrative budget: \$
  - Grant TA funds: \$500,000
  - Other:

If cofinancing is required indicate sources, and amount sought:

ADB = Asian Development Bank, CSP = country strategy and program, MOT = Ministry of Transport, PPTA = project preparatory technical assistance, RTSD = Road Transport Service Department, SCSP = subregional country strategy and program, SPPRED = State Program on Poverty Reduction and Economic Development, TA = technical assistance, TASF = technical assistance special fund.

**Table A3.4: Urban Water Supply and Sanitation II  
Concept Paper**

Date: August 2005

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p>    <input type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the</p> <p>    Sectors: Water supply, sanitation, and waste management; health, nutrition, and social protection</p> <p>    Subsector: Water supply and sanitation</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>    Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>    Subthemes: Fostering physical infrastructure development, human development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                   <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Shane Rosenthal</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The interim operational strategy identified urban water supply and sanitation as a strategic area of assistance. Azerbaijan's water supply and sanitation (WSS) infrastructure deteriorated significantly in the years after independence. The lack of an adequate water supply or of sanitation services has had a significant impact on the poor. Both physical assets and the quality of WSS services are at unacceptable levels, especially in secondary and small towns. The financing needs to upgrade the services and begin sector reforms, are enormous. This PPTA will prepare a project that builds on the first Urban Water Supply and Sanitation Project (UWSSP) loan, which aims to improve the quality, reliability and sustainability of WSS services in the regional towns of Agdash, Goychay and Nakhchivan. The UWSSP II will</p>								

build on this experience to improve network infrastructure and establish new water utilities with strong operational and managerial capacity in several additional towns.

**b. Goal and purpose:** The PPTA will prepare a loan project to improve the reliability and quality of affordable drinking water in regional towns, thereby improving the livelihoods of poor and vulnerable groups that are least able to cope with poor service.

**c. Components and outputs:** The PPTA will determine the scope of the project. The loan project is expected to establish new water utilities in several towns (with private sector participation) with strong operational and managerial capacity. It is also expected to support investments to rehabilitate pumping stations, strengthen pipe networks, introduce supply zoning, and install meters.

**d. Expected results and deliverables:** The PPTA will prepare a loan project that will improve the quality, reliability and sustainability of water supply and sanitation (WSS) services in several regional towns.

**e. Social or environmental issues or concerns:** Social and environmental issues will be determined during the PPTA.

**f. Plans for disseminating results/deliverables:** Participatory workshops will be conducted to include all stakeholders.

**7. Proposed executing/implementing agencies:** AzerSu.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

Preparation of the UWSSP included significant consultation with government on major policy and institutional issues. The PPTA will include further consultations on these issues, and there will be consultations with beneficiaries, particularly on issues of affordability, service quality preferences, and service coverage.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006

b. Expected date of submission for approval  
 Lending: 2007  
 Nonlending (project preparatory): 2006  
 Nonlending (other than project preparatory):

c. Period and duration of assistances  
 Lending: 2007–2011  
 Nonlending: 2006, 8 months

**10. Financing Plan**

- a. For lending  
 Ordinary capital resources: \$20 million  
 Asian Development Fund: \$30 million  
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$15 million (source to be determined).  
 If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	50.00
Government Financing	17.00
Other Financing	
<b>Total Cost</b>	<b>67.00</b>

Source: Asian Development Bank estimates.

Depending on ADF availability in 2006, ADB may be able to provide additional ADF funds. In the assistance pipeline for lending products, this possible increase in ADF funding is indicated under "Standby 2006" and the project name has been followed with "(Adjusted Amount)".

## b. For nonlending

- No resources required, other than ADB staff  
 ADB's administrative budget: \$  
 Grant TA funds: \$600,000  
 Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	500,000
Government Financing	125,000
Other Financing	
<b>Total Cost</b>	<b>625,000</b>

Source: Asian Development Bank Estimates

ADB = Asian Development Bank, ADF = Asian Development Fund, CSP = country strategy and program, PPTA = project preparatory technical assistance, RCSP = regional country strategy and program, TA = technical assistance, TASF = technical assistance special fund, UWSSP = Urban Water Supply and Sanitation Project, WSS = water supply and sanitation.



**Table A3.5: Affordable Services and Water Conservation for the Urban Poor  
Concept Paper**

**Date:** November 2005

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p>    <input type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input type="checkbox"/> Project preparatory</p> <p>    <input checked="" type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input checked="" type="checkbox"/> Other: JFPR Grant</p>								
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Water Supply, Sanitation and Waste Management Subsector: Water supply and sanitation</p> <p>b. Targeting classification</p> <p>    <input checked="" type="checkbox"/> Targeted intervention</p> <p>    <input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Theme:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, institutional development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Shane Rosenthal</p>								
<p><b>6. Description of assistance</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The interim operational strategy identified urban water supply and sanitation as a strategic area of assistance. Azerbaijan's water supply and sanitation (WSS) infrastructure deteriorated significantly in the years after independence. The lack of adequate water supply and sanitation services has had a significant impact on the poor. Both physical assets and quality of WSS services are at unacceptable levels, especially in secondary and small town. The project will support the Urban Water Supply and Sanitation Project (Loan 2119/2120-AZE) by reducing leaks from common pipework and water losses within apartment buildings, and improving sanitary plumbing.</p> <p><b>b. Goal and purpose:</b> The objective of the grant is to: (i) pilot a sustainable and replicable arrangement for</p>								

maintenance of common pipeworks in apartment buildings in the towns of Agdash, Goychay and Nakhchivan; and (ii) rehabilitate pipeworks in apartment buildings that are more than 25 years old and whose residents are predominantly poor.

**c. Components and outputs:** The components of the project are: (i) capacity building and training; (ii) replacement of communal water supply pipes; (iii) refurbishment and replacement of drainage pipes; (iv) repair and replacement of internal plumbing; and (v) project management, monitoring and auditing. Outputs include improved pipeworks in selected buildings and establishment of housing associations.

**d. Expected results and deliverables:** The expected result is establishment of effective housing associations capable of organizing the maintenance of common assets, increased public access to a reliable and affordable supply of drinking water, and minimization of wastewater leakage, water losses and water charges in buildings with predominantly poor residents.

**e. Social or environmental issues or concerns:** Proper disposal of old pipes, to be addressed in contracts for civil works, and through monitoring.

**f. Plans for disseminating results/deliverables:** Participatory workshops will be conducted to include all stakeholders.

**7. Proposed executing/implementing agencies:** AzerSu, State Committee for Construction and Architecture for the Nakhchivan Autonomous Republic.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

Preparation of the grant included significant consultation with government and beneficiaries on engineering and institutional issues.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006

b. Expected date of submission for approval  
Lending:  
Nonlending (project preparatory):  
Nonlending (other than project preparatory): 2006

c. Period and duration of assistances  
Lending:  
Nonlending: 2006-07, 2 years

**10. Financing Plan**

a. For lending  
 Ordinary capital resources:  
 Asian Development Fund:  
 Other:

If cofinancing is required, indicate amount and sources sought:

b. For nonlending  
 No resources required, other than ADB staff  
 ADB's administrative budget:  
 Grant TA funds:  
 Other: JFPR \$1,000,000

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	1,000,000
Government Financing	52,000
Other Financing (Community)	65,050
Total Cost	1,117,050

Source: Asian Development Bank estimates

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional country strategy and program, WSS = water supply and sanitation.

**Table A3.6: Samur–Absheron Water Supply  
Concept Paper**

**Date:** August 2005

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p>    <input checked="" type="checkbox"/> Project loan</p> <p>    <input type="checkbox"/> Program loan</p> <p>    <input type="checkbox"/> Sector loan</p> <p>    <input type="checkbox"/> Sector development program loan</p> <p>    <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p>    <input checked="" type="checkbox"/> Project preparatory</p> <p>    <input type="checkbox"/> Other than project preparatory</p> <p>        <input type="checkbox"/> Economic, thematic, and sector work</p> <p>        <input type="checkbox"/> Institutional development</p> <p>        <input type="checkbox"/> Other:</p>								
<p><b>2. Assistance focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the              Sectors: Water supply, sanitation, and waste management; health, nutrition, and social protection              Subsector: Water supply and sanitation</p> <p>b. Targeting classification</p> <p>    <input type="checkbox"/> Targeted intervention</p> <p>    <input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>    Themes:</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>    Subthemes: Fostering physical infrastructure development, developing rural areas, human development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country Azerbaijan   <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p><b>4. Responsible division/department:</b> Social Sectors Division/East and Central Asia Department</p>								
<p><b>5. Responsible ADB officer:</b> Shane Rosenthal</p>								
<p><b>6. Description of assistances</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The Samur–Absheron canal system is a major source of water for Baku and for irrigation in northeast Azerbaijan. The system has deteriorated and threatens the continued supply of drinking water to Baku and irrigation water to farmers. Currently, the World Bank is financing the rehabilitation of the headworks on the system, while the Islamic Development Bank is financing the rehabilitation of the Khanarkh canal, up to the town of Deveji. The Japanese Government is considering providing assistance to finance the construction of a new canal from Deveji into a new storage reservoir at Takhtakorpu river. The Government has asked ADB to finance construction of the remaining Samur–Absheron canal system of about 80 kilometers (km). From Takhtakorpu reservoir to Jeyranbatan reservoir, the estimated cost is \$80.0 million. It is proposed that the project be implemented in two phases.</p>								

This project is in line with the overall ADB strategy in Azerbaijan of reducing poverty through improving human development. It is also in line with the first prong of ADB's strategy of strengthening the effective provision of essential public goods and services to those in greatest need.

**b. Goal and purpose:** Improvement in the reliability and quality of drinking water in Baku and provision of irrigation water to farmers through construction of the last stretch of the Samur–Absheron canal system.

**c. Components and outputs:** A PPTA will determine the scope of the project, which is expected to include construction of about 80 kms of the water channel from the Takhtakorpu reservoir to the Jeyranbatan reservoir outside Baku, as well as dismantling two oil-fired pumping stations along the existing canal route.

**d. Expected results and deliverables:** More efficient and assured water supply and irrigation water.

**e. Social or environmental issues or concerns:** The following social issues would be addressed: (i) likely negative or positive impact of the project on indigenous people, and (ii) resettlement effects of the project. Additional social issues to be determined during the PPTA. An environmental impact assessment may be required.

**f. Plans for disseminating results/deliverables:** Participatory workshops will be conducted to include all stakeholders.

**7. Proposed executing/implementing agencies:** The State Amelioration and Irrigation Committee.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

The World Bank is currently reviewing the technical, environmental, social, and economic viability of the expansion of the system. The study is expected to be completed by the end of 2004.

**9. Timetable for assistance design, processing, and implementation**

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2001

b. Expected date of submission for approval  
 Lending: 2007  
 Nonlending (project preparatory): 2006  
 Nonlending (other than project preparatory):

c. Period and duration of assistance  
 Lending: 2007–2011  
 Nonlending: 2006, 8 months

**10. Financing Plan**

- a. For lending  
 Ordinary capital resources: \$50 million  
 Asian Development Fund: \$  
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$15 million, from To be determined.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$ million)
ADB Financing	50.00
Government Financing	20.00
Other Financing	
<b>Total Cost</b>	<b>70.00</b>

Source: Asian Development Bank estimates.

Depending on ADF availability in 2006, ADB may be able to provide additional ADF funds. In the assistance pipeline for lending products, this possible increase in ADF funding is indicated under "Standby 2006" and the project name has been followed with "(Adjusted Amount)".

## b. For nonlending

- No resources required, other than ADB staff  
 ADB's administrative budget: \$  
 Grant TA funds: \$500,000  
 Other:

If cofinancing is required, indicate amount and sources sought: \$\_\_\_\_, from \_\_\_\_\_.

If known, provide cost estimates and financing arrangements.

Source	Amount (\$)
ADB Financing	500,000
Government Financing	125,000
Other Financing	
<b>Total Cost</b>	<b>625,000</b>

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

## ASSISTANCE PROGRAM FOR 2005

**Table A4.1: Assistance Program for Lending Products, 2005**

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't	Co- financing
							Loans	Grants			
<b>2005 Firm Loans</b>											
<b>Transport and Communication</b>											
East–West Highway Improvement	GI	SEG/REG	ECTC	2004	93.20	49.00	3.00	0.00	52.00	19.80	21.40
<b>Subtotal</b>					<b>93.20</b>	<b>49.00</b>	<b>3.00</b>	<b>0.00</b>	<b>52.00</b>	<b>19.80</b>	<b>21.40</b>
<b>Total</b>					<b>93.20</b>	<b>49.00</b>	<b>3.00</b>	<b>0.00</b>	<b>52.00</b>	<b>19.80</b>	<b>21.40</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; ECGF = Governance, Finance, and Trade Division; ECTC = Transport and Communication Division; GI = general intervention; OCR = ordinary capital resources; PSD = private sector development; REG = regional cooperation; SEG = sustainable economic growth; TI = targeted intervention.  
Source: Asian Development Bank.

**Table A4.2: Assistance Program for Nonlending Products and Services, 2005**

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2005</b>							
<b>Energy</b>							
1. Renewable Energy Development	ECEN	PPTA	TASF	500.00		200.00	700.00
<b>Subtotal</b>				<b>500.00</b>		<b>200.00</b>	<b>700.00</b>
<b>Finance</b>							
1. Mahalla Business Development	ECGF	Grant		0.00	JFPR	1,500.00	1,500.00
<b>Subtotal</b>				<b>0.00</b>		<b>1,500.00</b>	<b>1,500.00</b>
<b>Law, Economic Management, and Public Policy</b>							
1. Participatory Strategy Development and Implementation to Achieve the MDGs	ECOC	ADTA	TASF	200.00	NPRS Fund	650.00	850.00
2. City and Regional Development Strategies for Azerbaijan	AZRM	ADTA		0.00	Cities Alliance	500.00	500.00
<b>Subtotal</b>				<b>200.00</b>		<b>1,150.00</b>	<b>1,350.00</b>
<b>Transport and Communication</b>							
1. Southern Road Corridor Improvement	ECTC	PPTA	JSF	700.00		0.00	700.00
2. Transport Sector Strategy	ECTC	ADTA	TASF	350.00		0.00	350.00
<b>Subtotal</b>				<b>1,050.00</b>		<b>0.00</b>	<b>1,050.00</b>
<b>Total</b>				<b>1,750.00</b>		<b>2,850.00</b>	<b>4,600.00</b>

ADB = Asian Development Bank; ADTA = advisory technical assistance; AZRM = Azerbaijan Resident Mission; ECEN = Energy Division; ECGF = Governance, Finance and Trade Division; ECOC = Operations Coordination Division; ECTC = Transport and Communication Division; JFPR = Japan Fund for Poverty Reduction; JSF = Japan Special Fund; MDG = Millennium Development Goals; NPRS Fund = National Poverty Reduction Strategy Fund; PPTA = project preparatory technical assistance; TASF = technical assistance special fund.

Source: Asian Development Bank.