



Assessing the Covid-19 response in Azerbaijan

December 2021

Overview

The government of Azerbaijan responded swiftly to the triple crisis in 2020 – the pandemic, the oil price crash and the flare-up of military hostilities in the Nagorno-Karabakh conflict zone – by rolling out a number of programmes to support households and businesses.

As the shocks weakened and recovery began, the authorities started thinking about policies to help bridge the gap between the current situation and the country's medium-term economic strategy. To this end, the EBRD partnered with the Ministry of Economy to evaluate how efficient the emergency response to Covid-19 had been, whether the existing measures should be continued or modified, and whether additional interventions should be made to help support the post-Covid recovery.

Immediate recommendations include improving the targeting mechanism for some programmes, in particular those for micro, small and medium-sized enterprises (MSMEs), increasing the coverage of certain social programmes, and making the economic system more inclusive by enhancing gender-responsiveness. Better institutional capabilities, enhanced digital infrastructure and more robust emergency preparedness would help implement the package and “build back better” the economy. But important reforms are still needed in areas such as competition policy, state-owned enterprises and the investment climate in order to achieve longer-term sustainable economic development.

Background

Azerbaijan was hit by triple shocks in 2020: the economic slowdown caused by the Covid-19 pandemic, the slump in oil prices, and the large-scale military hostilities in the Nagorno-Karabakh conflict zone. After robust growth at the beginning of 2020, output in the non-oil sector turned negative following the introduction of public health protection measures in March 2020. This contraction was somewhat softened by the government's prompt and extensive support package. The slump in oil prices meant the oil and gas sector contracted by 7.2 per cent in 2020, emphasising the need to diversify the economy. The large-scale military hostilities in the Nagorno-Karabakh conflict zone introduced further uncertainty and put a strain on

government finances. Overall, GDP decreased by 4.3 per cent in 2020. In Azerbaijan, as elsewhere, the Covid-19 crisis has deepened socio-economic vulnerabilities and widened disparities across regions, firm sizes, and between the formal and informal sides of the economy.

Azerbaijan was quick to react to the pandemic. A Presidential Decree outlining the emergency response package of measures was signed in March 2020, and the Covid-19 Response Action Plan was agreed by the Cabinet of Ministers in April. The government extended and scaled up existing support programmes, and designed new schemes. The initial size of the support package in 2020 was AZN 3.3 billion (around 4.8 per cent of GDP), later

increased to include additional tax benefits and a one-off extension of social assistance. The package included social protection measures such as direct cash transfers and an expansion of unemployment insurance to support the unemployed and informal workers, more targeted social assistance to support low-income households and vulnerable groups, the creation of additional public jobs, and energy and education subsidies. The main interventions to support businesses were cash payments to entrepreneurs and employers in Covid-19-affected areas, interest rate subsidies and guarantees for both new and old loans in affected sectors, as well as support to the transport sector and subsidised government rents.

Against this background, the Ministry of Economy approached the EBRD to help with an analysis of the emergency response package. Supported by two research institutes, GeoWel Research and Policy Analytics Lab, the EBRD looked in depth at the economic and social dimensions of the package. The aim was to provide an overview of the measures taken, evaluate their efficiency

and provide concrete and operational recommendations for improvements, including modifications and new measures to help speed up the recovery. Given the importance of aligning these temporary measures with the broader reform agenda, the analyses also provided more general structural policy recommendations.

Two reports were produced: one on business support and the other on social measures. Both reports used the OECD Development Assistance Committee (DAC) methodology to break down the analysis into considerations of relevance, efficiency, effectiveness and impact, and coherence and sustainability. The consultants used publicly available data, did extensive desk research on the existing analyses and conducted a number of interviews with government and non-government stakeholders to get a good understanding of the measures implemented and their impact on businesses and society. The analyses also compare the measures taken by the Azerbaijan's government with chosen benchmark countries as well as best practices worldwide.

Main findings and policy recommendations

Azerbaijan's economic policy response was relatively broad. It targeted a wide range of sectors except oil and gas, construction, agriculture and financial services. The interventions can be divided into "above the line" measures administered by the State Tax Service, such as cash payments to entrepreneurs and employers or subsidised government rents, and "below the line" measures such as interest rate subsidies and loan guarantees. On top of the fiscal measures, companies continued to benefit from fairly extensive business support programmes already in place before the pandemic, as well as regulatory forbearance introduced by the central bank. The report found that one of the most effective measures to support the economy has been the change in capital adequacy rules and strong signalling from the central bank that it does not expect banks to foreclose on companies which are behind their payments due to Covid-19. This reduced the level of immediate corporate bankruptcy.

There is a need to reform the general business environment. Azerbaijan finished the year in a far stronger fiscal position than initially anticipated, giving it space to increase the scale of support to businesses. But the analysis suggests that this should be more narrowly targeted towards companies in distress. For example, guarantees for working capital loans to small and medium-sized enterprises (SMEs) could be higher, as struggling SMEs have urgent needs but are likely to be seen by banks as excessively risky. In future, the response to a crisis such as Covid-19 should refocus on business environment reforms, on opening up opportunities to the wider population and on attracting finance and skills through foreign direct investment (FDI). The greatest risk associated with the pandemic is that it could exacerbate existing structural weaknesses. Therefore, Azerbaijan should focus on deconcentrating the economy, making investments easier and moving towards a level playing field for businesses.

The design and implementation of business support measures could be improved. In general, the impact of the pandemic on enterprises was less severe than anticipated. This can be partially attributed to the structure of Azerbaijan's economy and its high concentration around the oil and gas sector and large companies, making it less vulnerable to short-term financial challenges. However, SMEs faced obstacles in accessing finance and other support schemes. Weaknesses of the support programme include the high rates of rejection for loan guarantee schemes in the initial period, reflecting administrative constraints. The acceptance rate drastically increased in early 2021, although it is unclear whether this was because initial issues were resolved or because banks became more selective. Furthermore, the effectiveness of tax exemptions is constrained by the small tax base before the pandemic, and some business interventions were too small and infrequent to have a material impact on business operations. Lastly, improving communication would help increase awareness of the programmes put in place.

The social package aimed to contain the deepening of existing socio-economic vulnerabilities. Before the pandemic, Azerbaijan had taken successful steps towards reducing poverty and enlarging its middle class. According to the State Statistical Committee of the Republic of Azerbaijan, the poverty rate stood at 5 per cent in 2019. However, poverty is more widespread in rural areas and regional disparities are significant. The informal sector is large (estimated at 20 to 25 per cent of the working-age population¹), making people in this sector more vulnerable to shocks and more likely to be excluded from formal social protection schemes, in particular during shocks such as the Covid-19 pandemic. Gender disparities are prevalent, as seen in the lower labour participation rates of women (63.2

¹ UN (2020).

per cent female versus 69.9 per cent male in 2019²), and women are more vulnerable to informality and low wage jobs. Socially oriented payments accounted for 42.5 per cent of state budget expenditures in the first half of 2020 and increased by 36 per cent year-on-year in the entirety of 2020. The increase is largely caused by the introduction of unconditional cash transfers to ensure all vulnerable groups have access to social protection during the pandemic. The simplicity of this measure helped in reaching a large number of users, although some more flexibility (for example, taking into account the number of family members) could help increase impact.

Introducing a gender-responsive framework to limit the increase of existing gender disparities could ensure more equal opportunities in the future. Women's economic security could be supported by labour market interventions targeting women's access to paid work, training, employment programmes, social protection interventions prioritising women, and tailored fiscal measures for female-dominated sectors. Unpaid work could be addressed through labour market measures to spread care responsibilities more equally. A first step to ensure that women's challenges are taken into account would be to

include more women in the Covid-19 task force; currently just 3 per cent of members are female.

More effective and inclusive social support measures, through enhanced communication and digital systems, would be useful for future emergencies. The analysis showed that the communication strategy, in particular relating to eligibility criteria, was at times unclear and could be defined more precisely to avoid confusion. Access to social services was at times hindered by technical difficulties such as legal and technical gaps, and by failures in the application system, such as its repeatedly rejecting requests, loading and freezing, or shutting down. Improving digital technology and e-government services would also help the authorities to rapidly and transparently distribute social assistance. Three aspects were identified for future development: an advanced financial infrastructure enabling the use of digital payments; better e-government infrastructure, including digital IDs to store information such as age, occupation, family and income status; and integrated government databases containing updated and relevant economic information such as tax returns of citizens.

² ILO (2020).

References

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Acknowledgements

This note was produced by Lia Alscher and Ana Kresic of the EBRD's Country Economics and Policy team, part of the Economics, Policy and Governance (EPG) Department. Valuable contributions were made by Asif Mahmudov (Baku RO) and Peter Sanfey (EPG).

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