



USAID
FROM THE AMERICAN PEOPLE

PUBLIC INVESTMENT POLICY PROJECT

Quarterly Performance Report

Period: October 1 – December 31, 2005

JANUARY, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

Quarterly Performance Report

Period: October 1 – December 31, 2005

The authors' views expressed in this draft report do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

TABLE OF CONTENTS

1.	WORK PLAN TASKS SCHEDULED FOR Q4/2005.....	5
2.	THE Q4/2005 BENCHMARKS OF THE PERFORMANCE MONITORING PLAN.....	13
3.	COOPERATION WITH GOAZ COUNTERPARTS.....	14
4.	COORDINATION WITH DONORS, IFIs AND USAID PARTNERS.....	15
5.	PIPP/STTA EXPERTS' WORK AND NEED FOR AN ADDITIONAL LTTA EXPERT.....	15
6.	ADMINISTRATIVE TASKS AND REGISTRATION STATUS.....	16
7.	CONCLUSIONS.....	17

ATTACHMENTS:

1. Azerbaijan: Preparing the Medium-Term Macroeconomic Framework (MTMF) for 2007-2010
2. Comments on Priorities and Targets of "State Program on Poverty Reduction and Sustainable Development (SPPRSD), 2006-2015"
3. Azerbaijan Republic Public Investment Program and Policy: Manual Outlines
4. Scope of Work for Short-Term Technical Assistance for Q4/2005: Sectors Tourism and Environment
Scope of Work for Short-Term Technical Consultant for Q4 2005: Sectors Infrastructure (Transport & Energy)
5. Scope of Work for Short-Term Local Expert on Public Education and Awareness for Participatory Planning and Budgeting
6. PIPP Presentation on Importance of a Macroeconomic and Sectoral Framework for Public Investment Policy and Program
7. Memo on RMSM-X Training in Moscow, December 12-21, 2005
8. Briefing Note to Geoffrey Minott, CTO, USAID Economic Policy Advisor, on changes in the current PIPP Work Plan.
9. Meetings with IFIs and Donor Countries' Representatives and Consultants in Q4/2005.

ABBREVIATIONS

ABTC	Azerbaijan Bank Training Center
CER	Center of Economic Reforms
CTO	Cognizant Technical Officer
DAI	Development Alternatives Inc.
FPM	Financial Programming Model
GOAZ	Government of Azerbaijan
LTTA	Long- Term Technical Assistance
MOED	Ministry of Economic Development
MOED/DEPF	Ministry of Economic Development/Dept. of Economic Policy and Forecast
MOF	Ministry of Finance
MTFF	Medium-Term Financial Framework
MTMF	Medium-Term Macroeconomic Framework
NBA	National Bank of Azerbaijan
PIP	Public Investment Program
PIPP	Public Investment Policy Project
Q4/2005	Quarter 4, 2005
QPR	Quarterly Performance Report
RMSM-X	Revised Minimum Standard Model-eXtended
SPPRED	State Program for Poverty Reduction and Economic Development
SPPRSD	State Program for Poverty Reduction and Sustainable Development
SSC	State Statistics Committee
SSDP	Sector Strategic Development Plan
STTA	Short-Term Technical Assistance
TAMIS	Technical and Administrative Management Information System
TP	Training Plan
USAID	United States Agency for International Development
WB	World Bank
WP	Work Plan

AZERBAIJAN
THE PUBLIC INVESTMENT POLICY PROJECT
Q4/2005 PROGRESS REPORT

The Public Investment Policy Project (PIPP) is viewed by the USAID as the centerpiece of its program in Azerbaijan. This is mainly because the Project's core objective is to help the Government of Azerbaijan (GOAZ) in building up the necessary institutional and technical capacity to formulate and manage a sound public investment policy and program for sustainable development of the non-oil and social sectors.

The PIP Project succeeded to address most, if not all, tasks in its Work Plan (WP) scheduled for Q4/2005 with some timing and sequencing modifications in order to work in synchronization with the counterpart agencies and ensure quality delivery. This Quarterly Performance Report (QPR) for Q4/2005 presents an overview of developments in the PIPP/WP tasks scheduled for that period.

1. WORK PLAN TASKS SCHEDULED FOR Q4/2005:

A. Progress on Component A

Preparing a Medium-Term Macroeconomic and Sectoral Development Framework

The work on a simplified financial programming model (FPM) was initiated during Q3/2005 and continued in Q4/2005. The Ministry of Economic Development (MOED) staff involved was trained on updating and using the FPM (Task 3a). The work on FPM, however, had to be interrupted because of the need to advance the training on a more elaborate modeling of Revised Minimum Standards Model-Extended (RMSM-X), essentially used by the World Bank (WB), from March 2006 to December 2005 (see below). The FPM work will be resumed in Q1/2006. An extensive note explaining the PIP Project's approach to using these two models for developing the 2007-10 Medium-Term Macroeconomic Framework (MTMF) and Medium-Term Fiscal Framework (MTFF) for Azerbaijan is attached to this Review (Attachment 1).

Developing a database for economic studies and PIP-related documents at MOED is an important task the PIP Project continued to pursue in Q4/2005. The idea is to consolidate the existing information for every sector of the economy from MOED, Ministry of Finance (MOF), line ministries (LM), National Bank of Azerbaijan (NBA), and State Statistics Committee (SSC), and then establish procedures for continuous updating the database housed in MOED's Department of Economic Policy and Forecasting (DEPF). Implementation of this task started in Q3/2005 and will continue in Q1/2006 as well (Task 3d). In accordance with Task 3d, the PIP Project library is being expanded with the relevant materials and documents

on macroeconomics and fiscal issues. MOED is particularly interested in public investment project appraisal, monitoring and evaluation.

Preparing a Set of National and Sector Priorities for Social and Economic Development

The PIP Project developed a draft proposal on guiding and instructing the budgetary organizations by the elected leadership of the country on their planning and budgeting work in the framework of the national and sectoral development objectives and priorities and a “sectoral Medium-Term Expenditure Framework (MTEF)” (Task 4). To implement this task, the PIP Project drafted in Q3/2005 two technical notes on “Sector Strategic Development Program” (SSDP) and “Importance of Having a Macroeconomic and Sectoral Development Framework”. The former Note was distributed in Q4/2005 to MOED, MOF and the selected line ministries (Energy and Industry, Transport, Education, Environment, and Tourism) and discussed extensively with the help of PowerPoint slide presentations. The latter Note was also distributed to and discussed with MOED/DEPF with the help of slide presentations in two seminars in the current quarter.

As the two Technical Notes were well received at the technical staff level, the PIP Project planned to present them to senior GOAZ officials (ministers and deputy ministers) at a high-level workshop in early December. Both the Ministers of Finance and Economic Development expressed interest in the proposed workshop at the semiannual U.S.-Azerbaijan Economic Task Force Meeting in Washington, DC on November 28-29, 2005. Despite this encouraging support, however, the proposed workshop encountered some logistics and time constraints owing to the approaching year-end holiday programs of the potential participants. The workshop was therefore postponed to the later part of Q1/2006. In the meantime, the PIP Project staff has further improved the technical materials and presentations for the high-level workshop.

In January 2006, MOED/DEPF started working on the next rolling MTMF as required by the budget calendar. It is therefore highly important to have a set of “National and Sector Priorities for Social and Economic Development” to guide the country’s long term development plans (State Program for Poverty Reduction and Sustainable Development – SPPRSD, and State Program for Social and Economic Development of Regions -SPSEDR) and the resource and expenditure projections (the State Budget, Consolidated Budget, and PIP). As strongly emphasized in the two Technical Notes mentioned in the previous paragraph, GOAZ does not provide the budgetary organizations with the necessary objectives, priorities and other instructions for their planning and budgetary work. The PIP Project has therefore been reviewing the recent statements and decrees of the President to draft a set of “implied” national and sectoral development objectives and priorities that could be used to prepare the 2007-10 Macroeconomic and Sectoral Development Framework. In this connection, a draft set of such objectives and priorities circulated in late November 2005 by the SPPRED Secretariat to all donor agencies for their comments was reviewed and commented on by the PIP Project (Attachment 2).

Development of a Public Investment Policy and Program Manual

The PIP Project plans (WP Task 9) to produce a Manual for Public Investment Policy and Program (the PIPP Manual) on the basis of modules that would be developed through mid-2006. A preliminary draft outline of the PIPP manual, together with its quarterly progress plan, has been prepared (Attachment 3). The modules for the PIPP Manual will thus be developed in the course of implementation of all core tasks of the WP. In this context, the QPRs of the PIP Project and their attachments serve as the depository of all technical modules that will be inputs for the Manual.

In addition, the two STTAs (Mr. Iskarpatyoti on environment and tourism and Mr. Quist on infrastructure) have provided relevant sector inputs on the following issues (see Attachment 4 for their SOWs). These inputs will be further developed by the PIP Project staff and the new LTTA over next quarters, particularly while preparing the Public Investment Policy and Program Manual:

- Note on the current procedures of cooperation between MOED and MOF (Task 12a and b);
- Current process of accounting for recurrent expenditure implications of capital expenditures (Task 13a);
- Current procedures of identification, formulation and prioritization of investment policies and projects (Task 15a);
- Procedures and processes of consultation with all non-government stakeholders of the proposed capital spending programs and projects of the selected line ministries (Task 17a).

Preparation of Sector Strategic Development Plans

In Q4/2005, the PIP Project team addressed the important task of reviewing, analyzing, and offering recommendations for the improvement of sector strategic development plans (SSDPs). Most line agencies develop their sector strategic development plans by taking into consideration only their sector-specific objectives, but not the macroeconomic context and resource considerations. The SSDPs are thus no more than the lists of desired projects to be implemented over the long-term (10 to 15 years) with no consideration of national and sectoral development priorities, cross-sectoral linkages, and budget and other constraints..

The PIP Project made an in-depth analysis of the existing procedures for the preparation of SSDPs; their relationship to the budget envelope, and their coordination with all stakeholders (internal and external) in the five sectors included in the first year WP of the Project (Task 6). These analyses are included in the PIP Project's Technical Note on the Preparation of SSDP (see the QPR for Q3/2005). This Note was then discussed extensively during Q4/2005 with the help of PowerPoint presentations, with the sector specialists of MOF and MOED (Task 10) as well as with the relevant technical experts of the line ministries concerned. There is great willingness to adopt the PIP Project recommendations regarding the SSDP preparation, but it is generally recognized by all concerned that the line agencies will act on this only if the top decision-makers (the President and the Prime Minister) instruct them to do so.

The Participatory Process in Formulation of Sector Capital Spending Proposals

The PIP Project undertook an extensive review and assessment of the participatory process in the formulation of public capital investment policy in Azerbaijan (Tasks 7). A local STTA consultant (Mr. Ilgar Mammadov) was hired to prepare, under the guidance of the Deputy COP, a note on “Participatory Process in Public Investment Policy Formulation in Azerbaijan-Assessment and Recommendations” (see Attachment 5 for the SOW). The main conclusions of this note are as follows:

- GOAZ needs to realize political and economic advantages of involving non-government stakeholders in a dialogue on its macroeconomic priorities, medium-term plans and investment programs.
- GOAZ should accordingly supplement the vertical channels of command in planning and budgeting with the horizontal process of dialogue and openness.
- The media policy of the government requires further balancing between legitimate confidentiality (e.g., in spending for military and security) and wider transparency in economic policy and budgetary issues.
- These tasks should further be addressed by the PIP Project staff with greater sector and practical focus on the public investment planning process at line ministries.

B. Progress on Component B

Setting-up a Database and a Depository Library

The PIPP Work Plan (Task 11.b) aims at setting-up a database of the Azerbaijan’s public investment projects and a depository/library of investment reports and studies. After the diagnostic work held at the Ministry of Economic Development and meeting with Mrs. Gulbaniz Aliyeva, Head of General Division, MOED, it was decided to establish the PIPP Database in the MOED Library Section. The core objective of the PIPP Database is to enable MOED experts and other government officials to obtain sector studies, manuals for project preparation, other important reference documents, and files for public investment projects.

The PIP Project staff met with the Information Assistant of the World Bank/Baku Office and obtained information regarding the Bank’s local library structure, several project reports and various sector studies. Consultations were also held with the Head of Dept. of International Relations and Information Technologies, Azerbaijan State Economic University; the Head of International Education and Research Programs Office of International Relations, Baku State University; and the Head of American Studies Center regarding the depository library structure and organization, documentation classification and storage, and the terms of acquisition and use.

Identifying, Formulating and Prioritizing Investment Policies and Projects by the Selected Line Agencies

The current procedures and practices to design and implement most cost-effective investment policies and projects through SSDPs were reviewed to develop proposals for their improvement and prevent the line agencies from by-passing the MOED/MOF scrutiny for compliance with the national priorities and budgetary discipline (Task 15.a).

This task is an important component of the PIP Project work and calls to firm up linkages between the development planning and budgeting processes. The procedures applied by the line ministries in planning their capital spending proposals represent the weakest point in the overall government planning process. Furthermore, investment plans are not linked to a budget envelope, and this provides the Cabinet of Ministers and the President's Office with a pretext to micro-manage the entire PIP process without due consideration to macroeconomic implications and to the cost-benefit analysis of projects.

To address the above task, the PIP Project staff, with the help of STTAs, carefully analyzed the current situation and procedures and provided specific guidelines for: (1) the development of SSDPs, or improving the existing ones, at the selected line ministries; (2) project preparation, prioritization, and monitoring and evaluation; (3) building up the necessary institutional capacity to select most cost-effective investment policies and projects; and (4) specific training topics. As noted in the QPR for Q3/2005, the desk work on (1) was already included in the PIP Project Technical Note on the Preparation of SSDP. Both this and other works on (2), (3) and (4) were presented to and discussed extensively in Q4/2005 with the technical staff of MOED and the selected line ministries (except the Education Ministry) with the help of PowerPoint slide presentations. These discussions have helped to prepare the necessary groundwork at technical level in the selected line ministries for improved sector planning and investment programming, just pending the GOAZ (i.e., the Cabinet of Ministers) instructions to adopt the PIP Project proposals.

Consultation with Non-Government Stakeholders by the Selected Line Ministries .

The PIPP Diagnostic Work has shown that consultation with independent experts and civil society is not a standing practice at line ministries and other government agencies. The majority of line ministries continue to treat the preparation of their budgets and sector investment programs as strictly confidential and the draft documents as exclusively "for official use". There are no formal guidelines and established practice for the involvement of civil society, NGOs and other stakeholders in discussions on public sector investment projects. The line ministries' officials do not recognize this as a democracy deficiency and as a serious weakness in their sectoral PIP development process. They instead believe that they are "protecting the government's interests".

The PIP Project work on the participatory process noted above has already referred to this problem in the general context of Azerbaijan's budget and investment programming process. The PIP Project task on the subject also aims at developing sector-specific guidelines and proposals for the effective use of consultation with civil society in the preparation of SSDP and the investment program of the selected sectors included in the PIP Project's first year WP. The

PIPP sector specialists are expected to complete in the next quarter this sector-specific work on participatory process, which will then be combined with Mr. Mammadov's work noted above.

C. Progress on Component C

Promoting Awareness of the Importance of Improved Preparation and Prioritization of Public Investment Projects

In Azerbaijan, almost all public investment policy and project-selection decisions are made or approved by the Executive Offices of the President or the Prime-Minister. Notwithstanding the need to change this inefficient practice, the PIP Project has in the meantime been endeavoring to maintain adequate contact at the technical level with the both Offices (Task 18). In this context, the PIP Project COP has had meetings with Mr. Oqtay Haqverdiyev, Head of the Department of Economic and Monetary-Credit Policy of the Cabinet of Ministers to keep him posted with the PIP Project work and presented to him the Project's Technical Notes. Similarly, the COP visited in August 2005 Mr. Mail Rahimov, the most senior staff of Mr. Vahid Akhundov, President's Economic Policy Advisor (who was then on annual leave), and gave him an extensive briefing on and the Work and Training Plans of the PIP project. But the COP's subsequent calls requesting a meeting with Mr. Akhundov or his staff have not been returned.

The PIP Project's work has so far laid the groundwork for the preparation of the necessary national and sectoral framework for the formulation of a sound public investment policy and program. In the next two quarters, the PIP Project will focus on investment programming and project development processes and procedures, with a view to completing the initial coverage of its general objectives by mid-2006. The PIP Project work has so far shown that consensus can be reached on its proposals with the technical cadres of MOED, MOF and line ministries, provided that necessary time and patience are devoted. A serious difficulty, however, lies in the fact that the success of the PIP Project lies in persuasion of the top decision makers (President and the PM) to change the current processes (or lack of them) of Public Expenditure Management, which allow for the existing rant-seeking practices. Hence, we fear that neither the technical cadres nor even the Minister of Economic Development will ever venture to propose to the Government the systemic changes that the PIP project is envisaging

The PIP Project has therefore requested the help and support of Mr. Reno Harnish, the US Ambassador to Azerbaijan in this respect. Mr. Harnish has been endeavoring since late-November, 2005 to arrange a High Level Workshop to disseminate to the top decision makers the gist of the PIP Project Technical Notes on the importance of having a proper macroeconomic framework and well-structured SSDPs for sound public investment policy and programming. This Workshop is expected to be held in the later part of Q1/2006.

Promoting Line Ministries' Awareness of the Importance of Improved Preparation and Prioritization of Public Investment Projects

This task (#22) is of paramount importance to the success of the PIP Project because at present the selection of public investment projects in Azerbaijan is not based on any formal cost-

benefit or any other systematic (e.g., cost-effectiveness or multi-criteria analysis) analysis. The GOAZ senior officials need to recognize the multi-faceted as well as integrated nature of the project development, appraisal, monitoring, and evaluation processes. The PIP Project has held a series of workshops, as noted above, to present its technical notes on HPPC and SSDP to the technical staff of MOED and the selected line ministries during Q4/2006 (Attachment 6)¹. These workshops also served to introduce to them the integrated nature of the project work and the need to use appropriate prioritization criteria for the selection of sound public investment projects.

The PIPP Work Plan envisions addressing this task also with specific Technical Note(s) on the subject. Moreover, the PIP Project Training Program's multi-week course plan puts great emphasis on the integrated project analysis and the project prioritization on the basis of national and sectoral development objectives and strategies. The first three-week training session is scheduled for February 2006 and the second for March 2006. Such double sessions are planned to be repeated in November 2006.

D. Progress on Component D

RMSM-X Training in Moscow and Follow-up Training in Baku

The PIP Project's Diagnostic Review in May 2005 revealed weak linkages between the budget and planning instruments, absence of a proper formal macroeconomic and sectoral framework (model) for the development of these instruments, and inadequate consideration of structural, resource and consistency constraints. At present, MOED annually prepares the "Socio-Economic Development Forecasts" without using any formal model. In addition and independently from the MOED's forecasts, the IMF was annually developing "The Medium-Term Macroeconomic Framework" (MTMF) as part of the requirements of the Poverty Reduction and Growth Facility (PRGF), which the GOAZ decided not to renew when the last one ended in 2005. The Diagnostic Review also revealed a fragmented character of macroeconomic policy formulation on the part of MOED, NBA and MOF. Therefore, there appeared to be a need for building up the required programming capacity within MOED and strengthening its coordination with other central GOAZ agencies.

The PIP Project has produced, through Tasks 3-5 of its WP, a number of Technical Notes on macroeconomic and sectoral planning and discussed them with MOED for the enhancement of its capacity to develop an appropriate medium-term macroeconomic and sector modeling/framework. These were explained above as well as in the previous QPR. The PIP Project will continue working with MOED and the selected line ministries in the implementation of its proposals in this respect with the hope that the top leadership (the President's and the PM's Offices) will approve them. As already noted, a group of six economists at MOED was assigned to work, in cooperation with the PIP Project staff, to develop for Azerbaijan, first, an IMF-type simple financial programming model and then a

¹ The Technical Notes on HPPC and SSDP and the PowerPoint presentation on SSDP were presented as attachments 1, 2, and 3, respectively, of the previous QPR. Similarly, a PowerPoint presentation on HPPC, which was used extensively in Q4/2005 to disseminate to MOED and LMs staff the importance of integration of planning, budgeting and investment programming processes, is given here as Attachment 6.

RMSM-X model used by the WB. For the latter, the PIP Project arranged for a group of 15 economists from MOED (7), MOED/CER (2), MOF (4) and NBA (2), led by a PIPP economist (Ms. Hasanova) to receive training on RMSM-X at the WB Office in Moscow. The training was delivered during December 11-21, 2005 by a WB staff member (Mr. Tilavera) and funded by the World Learning, Inc., an affiliate of the USAID.

The RMSM-X training in Moscow (Phase I) was considered highly successful by all concerned, including the participants and the trainer (see Attachment 7). The significant outcomes of the training include the following:

- the key staff members from the main economic agencies learned how to use the RMSM-X;
- they and their management have recognized the need to use a consistency model in policy formulation and the RMSM-X's usefulness for this purpose; and,
- the training resulted in creating a strong confidence on the part of the participants that they could develop a good financial/consistency programming model for Azerbaijan.

The WB has agreed to provide both a trainer and adequate funding for a follow-up RMSM-X training (Phase II) of the same group already trained in Moscow. The PIP Project and the WB agreed to hold the follow-up training in Baku during the spring 2006 for the following reasons:

- the trainees will have time to digest and practice what they have learned in Moscow and formulate questions for the follow-up training;
- in the meantime, the trainees will work, in cooperation with the PIP Project staff, to develop the IMF-type FPM that would also help them better grasp RMSM-X; and,
- avoid any timing clash with another PIP Project multi-week training on Project Cycle scheduled for late January-early April, 2006, as some of the RMSM-X trainees are expected to be nominated for the former.

Project Cycle Multi-week Training

Per the PIP Project TP, altogether ten rounds of multi-week training program are envisaged to be delivered during the project lifetime on development of Project Cycle phases to about 20 staff in each round from MOED, MOF and the selected line ministries. In addition, each round of multi-week project cycle training will be preceded by a two-day training on the planning, budgeting and investment programming relationship for about 20 mid- to high-level managers from the same ministries. The selection of a right STTA International Training Expert to lead and deliver the training program has required a highly intensive, careful and time-consuming work from the PIP Project management both at DAI/HQ and Baku. Once the international trainer was identified (Dr. Richard Anson), albeit with considerable delay, the Project staff made an all-out effort to develop a Detailed Course Delivery Plan, an appropriate Training Curriculum, and relevant training materials on time to keep to the planned schedule for the first training round in January 2006.

There was also careful reconsideration of the selection of the Azerbaijan Bank Training Center (ABTC) as the local training partner to help deliver the DAI/PIPP Training Program. ABTC's labor rates appeared to be overly high and difficult to verify. In addition, other direct cost expenses of ABTC exceeded the projected budget for training. Both the PIP Project and the

USAID/CTO became concerned that the project cycle training capacity that would be created at the ABTC would be too expensive to be used by the government budgetary organizations. PIPP therefore decided to instead use the Center of Economic Reforms (CER) – the MOED’s research and training affiliate – as the Project’s local training partner. This is also expected to help develop the CER’s long-term capacity to contribute to the development of sound public investment policies and programs in Azerbaijan. The CER rates are substantially lower and more cost-effective than that of ABTC, and its staff profile seems to fit better to PIPP requirements.

2. THE Q4/2005 BENCHMARKS OF THE PERFORMANCE MONITORING PLAN

Aggregate Performance Indicator 1. Improved capacity of GoAZ in the areas of long-term national and sector development and investment policy planning.

Progress Indicator B. A set of “National and Sector Priorities for Social and Economic Development Plan” in line with the country’s medium- to long-term development plans (SPPRED/RDP), and resource constraints developed. The Priorities presented to the GoAZ for review and adoption.

Statement of progress in Q4/2005: A technical note with the rationale for the importance of macroeconomic and sectoral framework for public investment policy and program (PIPP) was developed and discussed with key central counterpart agencies. A technical note on preparation of sector strategic development plan was also prepared and formally presented to the cooperating line ministries. A draft technical note on how to develop long- and medium-term national and sectoral priorities of Azerbaijan is in progress and is expected to be completed discussed with the top GoAZ leadership in Q1/2006

Aggregate Performance Indicator 2: Improved capital budgeting formulation.

Progress Indicator E. MOED Staff Working Papers series initiated. Number of Working papers produced.

Statement of progress in Q4/2005: In light of alignment of sequencing for several underlying PIPP tasks the MOED Staff Working Papers will be initiated in Q1/2006 following implementation of other pre-requisite tasks. The rationale for the new task sequencing was expressed in a letter from PIPP COP to USAID CTO on January 3, 2006 (Attachment 8).

Progress Indicator G. Improved procedural arrangements for public sector budgeting through the development of PIP Manual. Number of modules prepared.

Statement of progress in Q4/2005: The outline for the PIP Manual was developed (Attachment 3) and is being further revised to fully accommodate the needs of GoAZ in a joint Call Circular, linking investment planning and programming with the budget envelope. Actual modules will be produced during Q1-3/2006 following implementation of the prerequisite tasks and developing the necessary PIPP methodology jointly with GoAZ.

Aggregate Performance Indicator 4. Increased proficiency and knowledge of GoAZ counterpart organizations in public investment policy and efficiency.

Progress indicator N. Training materials and educational case studies for the formal multi-week and on-the-job trainings developed and discussed with the GoAZ counterparts.

Statement of progress in Q4/2005: The PIPP Training Program and Delivery Plan were prepared. Arrangements were made with the local counterpart training organization, the Center of Economic Reforms, in joint delivery of the multi-week modular-type PIPP Training Program. DAI/PIPP intends to conduct 10 training courses during 2005-06 involving at a minimum 250 GoAZ participants involved in PIP preparation and execution.

Progress indicator O. Workshop for senior policy and decision makers on linkages between planning, PIP and budgeting prepared and delivered.

Statement of progress in Q4/2005: Technical notes and presentation materials for the subject workshop were developed and prepared for the delivery in December 2005. The workshop is planned to be delivered now in Q1/2006 following the U.S. Embassy, USAID and GoAZ agreement on the date to conduct it.

3. COOPERATION WITH THE GoAZ COUNTERPARTS

Implementation of the Project in Q4/2005 proceeded in close cooperation with both central and line ministries. As noted in Section 1 of this report, the process of changes, however, requires both *strong political will and commitment* on the part of the highest decision-making authority in the Government of Azerbaijan. Without a top-down directive for change, individual ministries would be reluctant to lead the process for reengineering the established practices in the area of public investment. This statement is particularly true in relation to the Ministry of Finance. Hence, the PIP Project works extensively with MOED and the line ministries and hopes that with time MOF will join the process as an equally solid partner.

In late October 2005, there was a major shake-up in the top leadership of GOAZ as a result of the President's stern action to pre-empt any possible support from some members of the government to the opposition parties in the General Elections in November 2006. In this context, the Minister of Economic Development Mr. Farhad Aliyev, together with several others, was detained on charges of corruption and "collaboration with the President's political rivals". The new Minister of Economic Development, Mr. Heydar Babayev, began a major restructuring of the Ministry, which is expected to continue through the next quarter until the President's approval of the Ministry's new charter. Despite these organizational and leadership changes, the PIP Project continued to work smoothly and effectively with the MOED's Economic Policy and Forecasting Department (EPFD) and other sector departments.

4. COORDINATION WITH DONORS, IFIs AND USAID PARTNERS

In Q4/2005 the PIP Project staff continued maintaining good cooperation with the international donor organizations, particularly with the IMF, World Bank, ADB and UNDP. The PIPP experts met with the IMF resident representative who became keenly interested in the PIPP's work plan tasks and proposed joint cooperation with MOF. There was a useful meeting held with the representatives of the new ADB project on Cities Alliance grant agreement, which is just taking ground in three major regional cities of Azerbaijan, namely Gandja, Sheki and Mingechavir. It was agreed that both USAID/PIPP and ADB/Cities Alliance could complement each other in helping the government in planning at sector and project planning levels.

PIP Project economists met the representatives of the ADB Capacity Building TA Project for economic modeling work MOED/CER, to be launched by early 2006. During the meeting the both sides agreed to cooperate and contribute to capacity building in modelling work at MOED for simple policy consistency framework and at CER for more elaborate macroeconomic modeling.

Undoubtedly, the status of cooperation is improving from day to day as the project gets wider recognition both by GoAZ and the international community. Attachment 9 gives a list of meetings held by PIPP experts with the representatives and consultants of various IFIs and donor countries during Q4/2005.

5. PIPP/STTA EXPERTS' WORK AND NEED FOR AN ADDITIONAL LT TA EXPERT

During November 2005, Mr. Oton Iskarpatyoti, Tourism and Environment STTA expert, assisted the PIP Project with sector-related work scheduled for Q4/2005. Specifically, Mr. Iskarpatyoti advised on the preparation of tourism and environment sectors' priorities in medium-term perspective in the context of wider macroeconomic objectives and resource projections. He conducted a series of on-the-job training for sector specialists and produced a number of recommendations as listed in his report.

During December 2005, Dr. Ron Quist, Infrastructure STTA expert, assisted PIPP with the Work Plan tasks related to sector strategic development planning; investment programming and project formulation; participatory process; and the training plan tasks (specifically, WP Tasks 4; 5; 6; 7a; 10a; 10b; 11; 13a; 15a; and 17a). Dr. Quist, in cooperation with the PIPP experts, prepared and delivered workshops and on-the-job training to the Ministry of Transport and the Ministry of Industry and Energy

Again during December 2005, Mr. Ilgar Mammadov, a local STTA consultant, worked on "Participatory Process in Public Investment Policy". The work involved diagnostics of the public's and civil society's involvement in budget-related discussions and particularly those related to PIP. The project, in consultation with the GOAZ agencies involved, arrived at practical recommendations for the GOAZ to involve grassroots in government decision-

making on budget outlays. The final report, with diagnostics and recommendations, will be further improved by the PIPP's new LTTA expert and then discussed extensively with the PIP Project's counterparts in the next quarter (Q1/2006).

The PIP Project's working has so far shown that the heavy load of technical work on the COP make him desk-bound and isolated from the Project's counterparts. The PIPP management, therefore, requested an additional LTTA expert to help with technical tasks (in particular, Component B of the Work Plan) and share some of the time-consuming technical responsibilities of COP. A fiscal economist/public expenditure expert would significantly contribute to the timely and successful delivery of the ambitious PIPP Work and Training Plans. Both the PIP Project management and DAI/HQ reviewed the budget and identified opportunities for possible cuts in international STTA assistance as well as in level of effort of its prime training subcontractors in order to accommodate an additional LTTA. A number of benefits will result from this initiative: First, this will allow COP to devote more time to policy and programmatic issues involving interactions with GOAZ counterparts. Second, it will ensure timely delivery of technical, advisory and training assistance to the cooperating GOAZ agencies. Finally, the conversion of part of the international STTAs budget to LTTA funding will result in a more effective and efficient use of the limited project resources.

6. ADMINISTRATIVE TASKS AND REGISTRATION STATUS

TAMIS DAI/PIPP configuration. In October 2005, Mr. Damon Job of DAI/HQ installed the DAI Technical and Administrative Management Information System (TAMIS). TAMIS will hold technical data related to PIPP activities. The system includes two components of Work Plan Management and Project Administration. In addition to specifying and tracking timing of and resource allocation for PIPP activities, the information stored in TAMIS serves all other project management functions, including providing information on the project budget and the publications and reports. With its Impact and Performance Monitoring sub-component, TAMIS also has the capability of electronic preparation of quarterly reports, annual progress/results reports, trip reports, and summaries of meetings and interviews with the project's stakeholders.

Project Registration. In early December 2005, the PIP Project obtained the License of Registration from the Ministry of Justice. Effective from January 1, 2006 the PIP Project has been complying with the Azerbaijan fiscal and labor regulations associated with employment of its local staff. This also required that PIPP registered with various statistic and fiscal bodies, opened local bank accounts, and set up and maintained the employment reporting system.

Project vehicle procurement. The PIP Project continued contemplating buying a US-manufactured vehicle for project needs in anticipation of the Project's Registration..

PIP Project relocation plans. Continuing problems with transportation to/from the Old Town area, where the project is located; with poor sanitary and air ventilation conditions; and with poor mobile phone connection have forced the Project Management to begin searching a new office, preferably closer to the Ministry of Economic Development. The Management plans to move to a new office by the end of Q1/2006.

There were no staff changes in the reporting period. As of January 1, 2006 the PIP Project operates with a permanent staff of 12, including 2 international experts, 4 local experts, 4 local administrative staff, and 2 local support staff.

6. CONCLUSIONS

During the reporting period, the PIP Project has enjoyed cordial and effective cooperation of all the central and sectoral ministries involved in the PIPP/WP tasks scheduled for Q4/2005 (namely, tasks 3d; 4a; 6; 7a; 9b; 10a; 11b; 12 a,b; 13a; 15a; 17a; 18; and 22). The following are the three important observations emerging from PIPP work in Q4/2005:

- i. The central and sectoral ministries' concerned staff showed great interest in and receptivity to the PIPP's proposals. Yet, they cannot convey these proposals to their superiors in case they are seen as a "message of criticism of current government modus operandi in public investment policy". The Project's success therefore largely depends on the political will and commitment of the key decision-makers (specifically, the Cabinet of Ministers and the President Administration) to reform the formulation and management of its capital expenditure policy.
- ii. New appointments in the central (Ministry of Economic Development) and sector (Ministry of Industry and Energy, the Ministry of Chemical Industry, the Ministry of Health, the State Oil Company of the Azerbaijan Republic, other) ministries/agencies represent a rotation of cadres in the government and further strengthening of the role of the President Administration. It is expected that the new Minister of Economic Development, Mr. Heydar Babayev, would establish better relationship with the Ministry of Finance than his predecessor and improve the integration of macroeconomic planning and investment programming with government budgeting. At the same time the long-lasting dilemma remains unresolved as none of the ministries will attempt to introduce in-depth reforms unless there is a blessing and green light from the President's Administration. In this context, the PIP Project sees its role as as an advocate for the PIP reform and as a resource team laying out the necessary technical ground for reforms. PIPP's recruitment of an additional LTTA expert in public expenditure will facilitate to attain this objective by relieving the COP from many desk-bound functions and core technical responsibilities.
- iii. Finally, the PIP Project has been successful in accelerating its cooperation with MOED and the selected line ministries that now rely on the Project to strengthen their competence in capital expenditure management. Specifically, the relevant staff of the Ministry of Industry and Energy and the Ministry of Transportation became keenly interested to cooperate with the Project to base their public investment requests on better justifications. These two technical areas represent close to 50% of overall state-allocated PIP expenditures.

In addition, PIPP has made significant preparations to deliver the first two sessions/rounds of its Training Program as scheduled in its TP for late January 2006. The PIP Project staff, in cooperation with the STTA International Training Expert, developed a Detailed Course Delivery Plan, the Training Curriculum, and other relevant materials for multi-week trainings. Overall, 10 training sessions are planned during 2006-2007, each involving 20 mid-level managers for a two-day course and another 20 technical experts for a 12-day program of technical training on project cycle. PIPP also made a careful review of candidates for the local training partner organization and selected the Economic Reforms Center of MOED.

AZERBAIJAN: Preparing the Medium-Term Macroeconomic Framework (MTMF) for 2007-2010

Introduction

1 A medium-term macroeconomic framework (MTMF) is essential to assessing whether the medium-term national and sectoral development objectives and strategies are consistent with each other as well as with the country's resource and other constraints. It is also essential formulating the annual and the medium-term budgets as well as the public investment policy and program in accordance with those objectives and strategies¹. The projections required for this purpose are not simple prognoses of trends in macroeconomic variables. They should instead reflect the government's targets, strategies and instruments in areas such as fiscal policy, monetary policy, exchange rate and external trade policy, reform of public enterprises, and regulation and promotion of the private sector. Most importantly, the MTMF should include the projections of the government accounts that would form a medium-term fiscal framework (MTFF). The MTFF should detail the broad revenue and expenditure categories, supplemented preferably with expenditure estimates by main sector.

2 The macroeconomic model to be used in the development of the government's MTMF/MTFF should be relatively simple. The government's major goal here is to set a general framework to formulate macroeconomic objectives, identify the necessary strategies and policies to realize them, and check their consistency. Sophisticated econometric models are not essential to this end, and have indeed certain disadvantages. Operating elaborate models needs time and a strong technical team, while the budget and the public investment program are prepared to a tight timetable. Advanced econometric techniques may give rise to a sense of misplaced concreteness and a forecast illusion, which may reduce their practical value. A simple model, on the other hand, can be used with ease, speed, and flexibility in debates on economic policies.²

3 This note explains how PIPP has been helping to develop the necessary capacity at MOED to prepare the macro and sector development framework in cooperation with MOF, NBA and line ministries. Following the issue of the PIPP Work Plan and the above-mentioned technical notes on the importance and role of macro and sector modelling in the formulation of public investment policy and program, PIPP has began using a two-prong approach of formal training in modelling and learning-by-doing involving MOED, MOF and NBA staff as explained below.

¹ The importance of having one and the same macroeconomic and sectoral development framework for the preparation of all major planning and budgeting instruments, including the public investment policy and program, is explained in the Public Investment Policy Project's (PIPP's) Work Plan and two recent technical notes: (a) Importance of a Macroeconomic and Sectoral Framework for PIPP, November 2005; and (b) Preparation of Sector Strategic Development Program, October 2005.

² The first two paragraphs are based on: OECD, "Managing Public Expenditure: A reference Book for Transition Countries", edited by Richard Allen and Daniel Tommasi, Paris 2001, pp.143-4 and 153.

Azerbaijan Experience in Macroeconomic Modelling

4 Since independence, there were several attempts to establish and institutionalise macroeconomic modelling capacity in the Ministry of Finance, the National Bank of Azerbaijan (NBA), and the Ministry of Economic Development (MOED). With the support of the UK's Department for International Development (DFID), the MOF established in 1999 an interdepartmental Macroeconomic Policy Group (MPG), which was subsequently expanded into an interagency (MOED, MOF, SOFAR) group under ADB financial support. MPG has developed a simple Azerbaijan financial framework model, an oil forecasting model on the basis of the BP model, an external debt model, as well as a RMSM-X type flow-of-funds model. However, the lack of demand for and adequate understanding of macroeconomic analysis has resulted in the MoF refusing to institutionalize MPG and then dissolving it when the ADB funding ended. The ADB and MOED have recently been working (since late 2005) to re-establish MPG under MOED's Centre for Economic Reforms (CER).

5 The NBA's modelling work, with two separate models for inflation and exchange rate forecasting, has been more successful than the other agencies' modelling work. NBA was particularly successful to establish, with the support of the IMF, the proper monetary accounts, a forecasting framework, and a sectoral database. With the establishment of the Research and Statistics Department in 2005, NBA has further strengthened its analytical and forecasting capacity. This Department also works on the development of a financial programming framework for Azerbaijan with external support.

6 MoED's Economic Policy and Forecasting Department is directly responsible for the macroeconomic policy formulation and macroeconomic forecasting in Azerbaijan, but it has not received any external assistance to improve its macro modelling capacity apart from getting the packages of the MPG models, and the WB RMSM-X model.

Financial Programming Model (FPM)

7 The IMF has popularized a simple Financial Programming Model (FPM) that serves basically as a simple consistency framework based on the national income accounting concepts and identities. It assumes that the economy comprises only four sectors: the real, fiscal, monetary, and external sectors. Each sector account has one or more direct linkages with other accounts, which act as consistency anchors. It has only a few behavioural relationships in the form of simple income elasticity. The user, however, may want to use more realistic behavioural relationships outside the model to determine or check plausibility of his exogenous targets and parameters. The model can be used to design the main demand management policies (i.e., the fiscal, monetary, and foreign exchange policies) to maintain macroeconomic stability in a particular country, given the growth targets and structure of the real side of the economy. But it has become a tool for the IMF to constrain the real side of the economy in the member countries so that its performance would be consistent and compatible with a set of demand management policies designed to attain and maintain macroeconomic stability in the economy.

8 Although a very useful tool, FPM does not directly contribute to the quality of analysis; nor does it provide the user with any additional insight into the issues discussed. Also, it is not a forecasting or projection model, but a programming tool. FPM merely provides guidance to the users for a certain way (methodology) of macroeconomic thinking and a framework for internal consistency of their analysis. The quality of their analysis will mainly depend on their own analytical capacity, knowledge of the economy and the political constraints, and access to most up-to-date data and information. Considering that the IMF designs and manages, with the help of FPM, Fund-supported macroeconomic adjustment programs in several dozens of countries, the

MOED should also be able, by using FPM, to develop a MTMF for Azerbaijan. All it needs is to have adequate capacity for sound macroeconomic and fiscal analysis and close cooperation with MOF and ANB.

Revised Minimum Standards Model-Extended

9 RMSM-X is an Excel-based model using national income accounting concepts and identities. More specifically, it includes five accounts, namely, the National Accounts (the real sector), Balance of Payments, General Government (the fiscal account), Monetary Survey, and the rest of the economy. It is essentially used for checking the consistency of demand management policies through its flow-of-funds framework. As distinct from the IMF Financial Programming model, however, RMSM-X is a package comprising a database file, a foreign debt module, and the model itself. Its sector modules can be expanded as needed to meet the user's requirements. For MTBF purposes, its national accounts and government sectors can be expanded to incorporate the main economic sectors or sector groups of the PRSP. Moreover, it imports data from own database and has built-in alternative closure rules. This enables the user to manipulate it for reviewing the implications, for example, of a certain budget scenario or private sector scenario for the rest of the sectors/accounts.

10 Although the basic conceptual framework of RMSM-X is easy to understand, its size (i.e., the number of worksheets, equations and identities), the various kinds of behavioural relationships, different closure rules, and somewhat complicated rules of adjusting its modules to different requirements make the running of the model a matter of technical expertise. However, the policy analysts, who will use the model in their policy or forecasting work, need not also know how to run the model software. All the analyst needs is to have a good grasp of the model's conceptual structure and basic characteristics; for data inputting and running the model he could rely on a research assistant with necessary technical expertise and experience.

11 The PIP Project had recently arranged, with funding from USAID/World Learning, Inc., for a team of 15 government official (9 from MOED & CER, 4 MOF and 2 ANB) to receive hands-on training in the use of RMSM-X at the Moscow Office of the World Bank during December 12-21, 2005. The initial assessments indicate that the participants were all strongly interested in the subject and that the training delivery was highly successful. The PIP Project plans to involve all those participants of the RMSM-X training in the implementation of the WP Tasks 3 & 4 (development of a macro and sector framework) during April-May 2006 so that they will apply what they have learned at Moscow. The PIP Project also plans to arrange a one-week follow up training for the same group in spring of 2006 by the World Bank Baku Office by using the latest updated version of the Azerbaijan RMSM-X.

12 RMSM-X would, of course, provide both the medium-term macroeconomic and sector framework, which would together form the quantitative framework of the medium-term rolling budget (MTBF) and the PIP. MOED, however, must develop a MTMF for the 2007-10 by early March to be used in the preparation of the Budget and PIP Call Circulars. As MOED/EPFD could not become functional in RMSM-X before some time (probably not before May), the 2007-10 MTMF for Azerbaijan will initially be prepared by using the IMF Financial Programming Model (FPM). Once the PIPP and MOED could run the RMSM-X and obtain the 2007-10 macroeconomic and sector forecasts, hopefully in May 2006, these could be used in updating and finalizing both the budget and PIP formulation.

Development of MTMF

13 The MOED/EPFD have identified 6 staff members from the Macroeconomic Policy, the PIP and the Fiscal and Monetary Policy Divisions that would normally be involved in MTMF work.

The PIP Project distributed to them in late November the four Sector Account tables (i.e., worksheets) to familiarize them with the structure of the model and individual accounts. As these staff members were included in the team who recently participated in the PIPP's RMSM-X training in Moscow, they are now well prepared for making a rapid progress in developing the 2007-10 MTMF for Azerbaijan. This work is now planned as follows:

- The worksheets already distributed will be checked to confirm the reliability of their data for "latest actual".
- The worksheets will then be updated for 2004 (actual), 2005 (preliminary actual) and for 2006 (expected outcomes).
- Projections will be made for "the 2007-10 base-line scenario".
- These projections, however, will have to be based on certain political choices and assumptions that should reflect the long- and medium-term national and sectoral development objectives and strategies adopted by the elected leadership of the GOAZ. In the absence of an established government practice to announce such objectives and strategies at the outset of every fiscal year, MOED/PIPP should draft "a set of implicit national and sectoral development objectives and strategies" based on the recent statements and other official documents issued by the President, PM and his other "representatives"³.
- If the Government is interested to consider some more favourable and/or downside scenarios, the alternatives could be developed by using different targets and assumptions with adequate justifications.
- Finally, recent developments, current prospects and medium-term projections in the fiscal area (i.e., Medium-Term Fiscal Framework-MTFF) will be discussed with MOF by using the above-developed MTMF, with implications for and interactions with the macroeconomic stability, particularly in reference to the monetary and external sectors.
- More specifically, jointly with MOF and by using MTMF, MOED will identify for 2007-10 the proper levels of:
 - a. Total resources available for both consumption and investment;
 - b. Its distribution between consumption and investment, and also each between the private and the public sector;
 - c. This also gives the distribution of the total resources between the private and the public sector;
 - d. Finally, the indicative sector resource ceilings.
- The resulting document will in fact be a combined MTMF/MTFF.

³ The SPPRED Secretariat (MOED) has recently circulated the draft set of national and sectoral priorities and targets for the forthcoming State Program for Poverty Reduction and Sustainable Development (SPPRS) for 2006-15. They should be translated into medium-term (2007-10) targets, but most of them are not suitable for operational targeting as they are stated highly vaguely (e.g. decrease to minimum violence against women by 2015). They also do not seem to have been checked for their feasibility and consistency with each other.

14 The PIP Project wants to use this task as a vehicle to train both its own local experts and the MOED staff in developing a MTMF/MTFF with the help of FPM. Among the six MOED staff assigned to work on this task, there is one or two already familiar with FPM. The recent training in the RMSM-X (see para.9) that the PIP Project has arranged for 15 GOAZ experts, including the six MOED staff who will work on FPM, will also prove helpful in our work on this task. What the PIP Project tries in this case amounts to using the “learning by doing” approach. Accordingly, the task has been divided, as already mentioned, among the five MOED economists. The Project COP has been providing guidance to the team, both as a group and individually, on the program’s objectives and characteristics, and how to use it. Ms. Sevinj Hasanova, PIPP’s Public Finance and Social Sectors Expert, is the task leader for the development of MTMF for 2007-10 and will work closely with the MOED team, to be called hereafter “the FPM Working Group- FPM/WG.

15 Once the FPM/WG verifies that the 2001-03 data in the FPM account tables confirm with Government and/or IMF data, they will then be updated for 2004 and 2005 by using the same data sources. In this regards, the report of the Fund’s most recent Article IV Mission to Azerbaijan, which will probably be issued in March 2006, can also be used to firm up our tentative data for 2004 and 2005 and the expected outcome for 2006. The FPM/WG should then “program” the four FPM accounts for 2007-10, as noted above, with the help and cooperation of MOF and NBA staff and by using the “implicit/indicative” set of Government objectives and strategies, the last year’s rolling budget and PIP documents, the ongoing work on SPPRS, and its own assumptions and evaluations. The outcome will be the medium-term macroeconomic program for Azerbaijan for the 2007-10 period corresponding to what used to be prepared for Azerbaijan by the IMF since early 1990s, with one significant difference that the present MTMF will be “Made in Azerbaijan”.

16 The resulting MTMF and its interactions with expected fiscal, monetary and balance of payments developments (i.e., MTMF/MTFF) should be justified on the basis of plausible assumptions and indications. To this effect, each member of the FPM/WG is expected to provide a brief write-up to justify the underlying assumptions of his/her sector account. Since the government has to own this framework, its “base-line version” should incorporate the latest objectives and targets announced by the Government. On the other hand, it seems that this scenario will have several hardly “defendable” assumptions or expectations, like the State Budget expenditures to be increased by 60 percent in 2006 while still being able to keep the rate of inflation below 10 percent. Each FPM/WG member is, therefore, required to come up with adequately justified alternative assumptions, where the base-line scenario is not plausible. They have to also align their assumptions with each other in order to ensure inter-consistency of the sector accounts of the alternative scenarios.

To perform their tasks satisfactorily, the FPM/WG staff should closely follow recent developments, current prospects, and government objectives and policies in their respective sectors as well as in the overall economy. For their present task, they are advised to go through the following documents:

- The IMF recent reports on Azerbaijan (they could be downloaded from the IMF web site www.imf.org, or from the PIP Project library), particularly: 1) Statement by the IMF Mission for the 2005 Article IV Consultation with the Republic of Azerbaijan (Press Release No. 05/287 December 21, 2005); 2) Republic of Azerbaijan: Ex Post Assessment of Longer-Term Program Engagement - Staff Report and Public Information Notice on the Executive Board Discussion, August 1, 2005; 3) Republic of Azerbaijan: Fifth Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria - Staff Report; Press Release on the Executive Board Discussion;

and Statement by the Executive Director for the Republic of Azerbaijan; 4) Azerbaijan Republic: Selected Issues January 21, 2005, 5) Azerbaijan Republic: Statistical Appendix January 21, 2005;

- The Economist Intelligence Unit's monthly reports (available in PIPP from 10/2005);
- Fitch Ratings Azerbaijan Reports (should be presented to GoAZ, particularly MoF);
- NBA information (available on the NBA web site: www.nba.az): 1) Main Directions of the Monetary Policy in 2006; 2) Report on Implementation of monetary policy in 9 months of 2005; 3) monthly bulletins (however they are available only up to July, 2005).

17 These will make them adequately informed of the current state of Azerbaijan economy in general as well as in the fiscal, monetary and external sectors as of end 2005. For getting informed on more recent developments, they are advised to review State Statistical Committee's annual and monthly publications, establish monthly data exchange with MoF (fiscal data) and NBA (monetary and BOP data); and to follow the daily and weekly papers and journals. It is advisable that they also go through the "press clippings" file of the PIP Project.

18 For the 2007-10 MTMF/MTFF, the PIPP COP and Ms. Hasanova will jointly pull together FPM/WG's work on sector accounts, both the worksheets and the economists' write-ups, and discuss the interactions between fiscal and budgetary policies and the macroeconomic growth and stability, with particular emphasis on the monetary and external sectors. The WG members should also be involved in the last phase of the work as much as possible as this would provide the most effective on-the-job-training for capacity building at the MOED. PIPP should endeavour to promote MOED's interaction on this task with MOF and NBA as much as possible. The scope of the text of MTMF/MTFF should be wider than just needed for the 2007-10 PIP. This work will provide MOED with a continually updated analysis of the recent macroeconomic and fiscal developments and current prospects of the Azerbaijan economy. It could be used not only for the PIP but also for the Annual State Budget and MTBF; the Budget Speech by the MOF; the SPPRS and its Annual Progress Reports; discussions with the IMF, World Bank, and other donor agencies; and the government presentations to the international forums.

19 As for the content of MTMF/MTFF, the MOED and MOF management should agree on a particular template, with necessary flexibility for additional focus on a few current economic and social themes of pressing importance. This template could be similar to that of the government's "Memorandum of Economic and Financial Policies" (MEFP), referred to as the Memorandum of Understanding and presented to the IMF in connection with the review of progress of the Fund-supported programs (e.g., PRGF). This year's special themes could be, for instance, the efficient use of substantial increase in budgetary spending and how to minimize its inflationary impact. It will also be necessary to harmonize this work with the preparation of the State Budget, MTBF, and the Budget Speech by MOF as it should provide policy framework to these documents. In this respect, the inputs provided by other central and line ministries to MOF for Budget work could also contribute to developing the content of MTMF/MTFF. Finally, in the coming years, the analysis and write-up should be done by an MOED team of senior experts, with participation of a senior fiscal policy expert from MOF and a senior monetary policy expert from NBA, and the team should have full access to most recent data as well as to full inside knowledge of the government's views and concerns over the country's medium-term development prospects.

Conclusion

20 Macro-modelling required for planning and budgeting purposes has the following main features:

- It is not meant to project and identify the development path of the economy. It is instead used as a tool to verify the consistency and feasibility of the government's medium-term objectives and strategies.
- It does not need to be a sophisticated econometric model; in fact a simple FPM and a limited version of RMSM-X will serve our purpose even better.
- MTMF-cum-MTFF should not be considered to be used only for the preparation of the main plan and budget documents. It must instead be continuously updated for use in almost daily navigation of the economy jointly by the MOED/MOF/NBA.
- Hence, the preparation and updating of MTMF/MTFF and managing the inter-agency cooperation for its production and use should be institutionalized and based in an adequately and appropriately staffed agency (i.e., MOED).

Md:md

1/31/06

**THE REPUBLIC OF AZERBAIJAN
MINISTRY OF ECONOMIC DEVELOPMENT
THE USAID PUBLIC INVESTMENT POLICY PROJECT**

**Comments on Priorities and Targets of “State Program on Poverty
Reduction and Sustainable Development (SPPRSD), 2006-15”**

Introduction

1. The SPPRED Secretariat of MOED circulated on November 30, 2005 to all donor agencies the first draft of the “Main Policy Directions and Targets for the New SPPRSD for 2006-15” requesting comments by December 9th, 2005. This document was received by PIPP on December 30th, 2005. It may therefore be too late now for PIPP to make any contribution to the SPPRED Secretariat’s work on the subject. Nevertheless, the issue is very important for the formulation of a successful public investment policy and program as well as the Consolidated Budget over the medium-term (i.e., 2006-10) as they are expected to be guided by the SPPRSD’s objectives and strategies. This in turn requires that SPPRSD’s objectives and strategies are determined in realistic and operational terms within a macroeconomic and sectoral consistency framework. On this issue, PIPP has recently prepared a technical note¹ explaining the crucial importance of having one and the same macroeconomic and sectoral development framework for all the planning (SPPRSD, SPRD, PIP) and budgeting (State Budget, Consolidated Budget, MTBF) documents. This note, therefore, intends to put on record PIPP’s views on the draft priorities and targets of SPPRSD for 2006-15.

General Comments

2. **Are SPPRSD’s Objectives and Strategies Realistic and Consistent?** SPPRSD, as all PRSPs, purports to focus on poverty reduction objectives, strategies and policies reflecting the GOAZ’s priority to eradicate poverty in the country as early as feasible. As such, it covers only those parts of public sector activities and economic sectors which are considered most relevant to poverty reduction objectives. SPPRSD cannot, therefore, have a stand-alone macroeconomic and sectoral development framework. On the other hand, whether the objectives, strategies and specific measures of SPPRSD are realistic and consistent with each other and with non-SPPRSD activities could have been assured only had they been elicited from an overall macroeconomic and sectoral development framework for the whole economy.²

¹ The USAID Public Investment Policy Project, “Importance of Having a Macroeconomic and Sectoral Framework for Public Investment Policy and Program”, Discussion Draft, Baku: November 2005.

² Vietnam, for instance, does not prepare a separate PRSP but extracts one from its Development Report for submission to the WB and IMF. See: “Vietnam Development Report 2005: Governance”, Joint Donor

3. **Are SPPRSD's Objectives and Strategies Operational?** If SPPRSD is to be an operational planning/programming instrument, its objectives, priorities and targets must be **SMART: Specific, Measurable, Achievable, Result-oriented, and Time-bound**. The proposed priorities and targets are far from being SMART as would be seen from the specific comments below.
4. **Linkage between SPPRSD and Government Budget.** What SPPRSD could envisage to achieve over the first four years (2006-09) of its ten year period could be only those that could be achieved with the current and capital expenditures included in the four-year rolling government budget ("budget" here refers to the overall planned government spending as distinct from the formal State or Consolidated Budget, which has a narrower than universal coverage). SPPRSD should therefore have the intermediate values for year 2009 of all its targets on the basis of government spending plans for 2006-09. This would assure from the beginning that the linkage between the SPPRSD and Government Budget is established and that the targets for 2015 could be determined more realistically.
5. **The English translation is very sloppy**, causing difficulty in understanding some of the statements and requiring the reader to guess what the original text might be saying. This is noted here because it could have been avoided easily as the UNDP and ADB experts are working with this project.

Specific Comments

6. There are six "**Basic General Targets**", each raising serious questions:
 - **Decrease by minimum the number of those living below the poverty line by 2015:** Who will decide, and how, if the number of people living under the poverty line in 2015 is "minimum" or not.
 - **Complete elimination of extreme poverty by 2015:** This target will become meaningful if the extreme poverty level in 2015 is defined now.
 - **Increase by 3.5 times the volume of GDP per capita by 2015:** This means the per capita GDP index will be 450 in 2015, taking its level in 2005 as equal to 100. However, a subsequent target under "Sector: Economic Development" shows that they probably meant 2.5 times rather than 3.5.
 - **Maintain inflation rate at a single digit level by 2015:** They probably meant "through 2015, rather than by 2015. This target cannot be meaningful as it defines the inflation target as a range from nil to 9.99, which is equal, in relative terms, to using a range of 10-100.
 - **Ensure completely targeted social assistance by 2015:** This looks to be the only "SMART" one of the six general targets.

Report to the Vietnam Consultative Group Meeting, Hanoi: December 1-2, 2004. Nepal does not also prepares a separate PRSP but instead subtitled its Tenth Development Plan, 2002-07 as PRSP.

- **Ensure effective employment by 2015:** What does “effective” mean here? What is meant perhaps is “full employment”, which should then be defined as there is no an agreed definition of it applicable to all countries.
7. The “Basic General Targets” section is followed by the sector priorities and targets sections on Economic Development, Education Policy, Health, Gender, Environmental Protection and Ecological Security, Improving Living Conditions of Refugees and IDPs, Social Protection Policy, Good Governance, and Youth Policy. Each section gives first a list of priorities and then another list of targets. The following paragraphs will first comment in detail on the Economic Development priorities and targets and then refer to some characteristic peculiarities of the other sectors’ priorities and targets.
 8. **Economic Development Priorities** are listed as follows:
 - i. Ensure sustainable economic development;
 - ii. Expand income-generating opportunities;
 - iii. Develop the real sector;
 - iv. Develop infrastructure;
 - v. Integration to the global economy.
 9. “**Sustainability**” of economic development is a major issue for the resource-strapped economies as they have to depend on external borrowing that could endanger the future viability of their development. Azerbaijan’s oil resources, on the other hand, assure the sustainability of its economic development over the foreseeable future (i.e., 3 to 4 decades). What is most important for Azerbaijan is not so much the sustainability as the broad-based nature of development. This is mostly put as the development of the non-oil sectors while “**the broad-based development**” better characterizes what Azerbaijan needs most.
 10. The **second priority is redundant** as the first one will naturally expand income-generating opportunities. If the nature of economic development is to be further qualified, one can refer to expanding **employment-creation** particularly in **poverty-stricken regions and income classes**.
 11. **What is the “real sector”?** Does it mean non-financial or non-services sectors, or does it exclude both? Whatever it is, it should definitely include “infrastructure”; hence the fourth priority is also redundant.
 12. There are 11 Economic Development targets, most of which are questionable:
 - **Target 1: Maintain the real increase rate of GDP by 2015 (baseline 2004-110.2).** Does it really mean maintaining the 2004 growth rate of 10.2 percent through 2015? Probably not. Does it then mean maintaining “any positive” rate of increase in real GDP? But it is then rendered redundant by Target 2.
 - **Target 2: Increase GDP per capita up to US\$3400 by 2015 (baseline 2004- US\$1041).** This is supposed to be the most crucial target, and it should be stated exactly rather than as “up to”. If the 2015 target of GDP per capita is taken as US\$ 3400, it represents an increase of 225 percent. If the

anticipated US inflation (or dollar's depreciation) is also allowed for, the growth of Azerbaijan's per capita GDP in real terms over the 2004-15 period will be substantially less than 200 percent (less than twice). This contradicts the Basic General Target 3 above envisaging a 3.5 times increase at the per capita GDP over the same period.

- **Target 4: Maintain inflation rate at a single-digit level by 2015 (baseline 2004- 6.7%).** As noted earlier, it is not feasible to plan or program with such ambiguous targets.
- **Target 5: Increase average nominal monthly wages of the population up to AZM 3300 thousand by 2015 (baseline 2004- AZM 483.4 thousand).** Assuming inflation can be kept just below 10%, the envisaged wage increase over the 2005-15 amounts to about 250 percent. Should the average rate of inflation be lower, the envisaged wage increase in real terms would even be higher. Considering that the Basic General Target 6 envisages attaining full employment by 2015, the increase in the "wage bill" will probably be as thrice higher than in 2004. This compares against a much modest (probably about 170 percent) increase in the non-oil GDP in real terms (See Target 2 and 7), pointing to a possible inconsistency among the targets unless labor productivity almost doubles (which is unlikely) over the period in question.
- **Target 6: Maintain the real increase rate of the non-oil sector by 2015 (baseline- 13,2%).** This is rendered redundant by the next target.
- **Target 7: Ensure sustainable development of the non-oil sector by 2015 (baseline 2004- 69.3%; 2015- 66.7%).** This implies that the non-oil sector, oil sector and the overall GDP will all grow more or less at the same average rate over the period of 2004-15. This is important for other targets as well.
- **Targets 8 & 9** are supposed to give **the length of general motor-roads and the electric power capacity** in 2015, respectively, but apparently they were not yet determined. Nor their base-line magnitudes are given. These two infrastructure investments account for a significant share of Azerbaijan's total investment, particularly of public sector investment, and yet all other targets for 2015, including overall investment and growth targets, were determined apparently without reference to them.
- **Target 11: Achieve a double increase in the foreign trade turnover (baseline 2004- US\$7119.1 mln.).** This target envisages that Azerbaijan's foreign trade volume will amount to 47 percent of GDP by 2015 (based on Target 2 above and the assumption of an annual growth of population at 0.8 percent) compared to 83 percent in 2004. The base year trade turnover was affected unduly by large amount of oil-related imports of machinery and equipment while this effect will almost disappear by 2015. It would therefore be more relevant to the envisaged structure of the growth path to give the foreign trade target separately for export and import volume.

13. The priorities and targets of the other sectors (except the Environmental Protection and Social Protection sectors) are even further away from being "SMART" enough (see paragraph 3 above) to make SPPRSD an operational program document. Just to point to some examples will suffice to highlight this serious shortcoming:

- Increase achievements in Education by 2015 (Education Policy Target 4);
- Increase use of IT in education by 2015 (Education Policy Target 7);
- Build on preventive measures against HIV (Health Target 3), malaria and brucellosis (Target 4), diabetes and other heritable diseases (Target 5), and cardiovascular diseases (Target 6);
- Improve access of the population to health services over 2006-15 (Target 7);
- Decrease to minimum trafficking in women by 2015 (Gender Target 4);
- Decrease to minimum violence against women by 2015 (Gender Target 3);
- Reduce to minimum the poverty level among refugees and IDPs (Target 3);
- Reduce to minimum the incidence of infectious diseases among refugees and IDPs (Target 6);
- Raise management efficiency –WB indicator was 22.1 % in 2004 (Good Governance Target 1);
- Achieve legal education of the population (Good Governance Target 8);
- Prevent early pregnancy cases (Youth Policy Target 4);
- Reduce violations among the youth (Target 6);

Conclusion

14. Like most PRSPs, Azerbaijan’s SPPRED for 2003-05 suffered from the major “notorious” shortcoming of lacking the necessary connection with the Government Budget. It was not possible to trace the SPPRED measures and programs to the budget spending items, both budgeted and actual, or vice versa. And yet, all representatives of the budgetary organizations can undisputably claim that all their spending were in line with SPPRED. This was possible because SPPRED, with non-SMART targets/indicators, had not been prepared as an operational document, with almost every good thing under the sun being included in it. It is rather perplexing that such a document was expected to guide the preparation of Sector Development Programs, the PIP and the State Budget.

15. The WB and IMF documents on poverty reduction strategies frequently mention that a major common problem of all PRSP countries is the lack of satisfactory linkage between PRSP and budgeting, which is also reflected in unsatisfactory prioritization and costing of PRSPs. Attempts to establish such linkage through ad hoc measures (e.g., by arranging Working Groups, or asking line ministries to pay more attention to the PRSP) have not yielded satisfactory result in anywhere. This is because the way PRSPs are prepared renders the two documents in most countries either inconsistent or un-comparable. The WB and IMF have gradually moved over the years from merely pointing to these problems towards seeking the ways and means to address them. They in fact made the issue of linkage between PRSP and budgeting as one of the five themes of their 2005 JSA of the progress of PRSP implementation, whose main focus was on how to improve domestic and donor accountability for PRSPs. To this effect, the main recommendations of the JSA included the adoption of SMART targets by PRSPs and the full integration of the PRSP (or Annual Performance Review), MTBF and the Annual Budget processes.

16. It looks, however, that the next PRSP in Azerbaijan (SPPRS for 2006-15) will not be any different from the previous one with respect to its ambiguity and lack of operational usefulness. The PIP Project is concerned over this issue because the formulation of sound public investment policy and program over the medium-term has to be guided by a clearly defined set of national and sectoral development objectives, SMART targets, and well prioritized strategies and policies, all reflected in the PRSP and MTBF and checked for consistency and feasibility within a formal macro and sectoral development framework. These are all missing in Azerbaijan, but they also lie outside the SOW of the PIP Project. Nonetheless, because of the crucial importance of the issue for PIP, the PIP Project has been assisting MOED and line ministries to develop the necessary modeling and analytical capacity, which could be used to develop a common framework for all planning and budgeting documents.

17. To complete these comments with a positive note, reference should be made here to the draft “**Long-Term Socio-Economic Development Strategy, 2005-25**” prepared by the MOED. This draft Strategy envisages that it will be implemented through the Five-Year Development Plans, which would identify SMART targets, the necessary funding sources, and the monitoring benchmarks.

Md.md
1/15/06

State Programme on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan 2006-2015

PRIORITIES AND TARGETS

Basic general targets:

- Target 1: Decrease by minimum the number of those living below the poverty line by 2015;**
- Target 2: Complete elimination of extreme poverty by 2015;**
- Target 3: Increase by 3.5 times the volume of GDP per capita by 2015;**
- Target 4: Maintain inflation rate at a single digit level by 2015;**
- Target 5: Ensure completely targeted social assistance by 2015;**
- Target 6: Ensure effective employment by 2015.**

First draft: November 29, 2005

Sector: Economic Development

Priorities:

- Priority 1:** Ensure sustainable economic development;
- Priority 2:** Expand income-generating opportunities;
- Priority 3:** Develop the real sector;
- Priority 4:** Develop infrastructure;
- Priority 5:** Integration to the global economy.

Targets:

- Target 1:** Maintain the real increase rate of GDP by 2015 (baseline 2004 – 110,2);
- Target 2:** Increase GDP per capita up to US\$ 3400 by 2015 (baseline 2004 – US\$ 1041);
- Target 3:** Increase the volume of investments from all financial sources up to US\$ 7500 mln. by 2015 (baseline 2004 - 5403,6);
- Target 4:** Maintain inflation rate at a single-digit level by 2015 (baseline 2004 – 6,7%);
- Target 5:** Increase average nominal monthly wages of the population up to AZM 3300 thousand by 2015 (baseline 2004 - AZM 483,4 thousand);
- Target 6:** Maintain the real increase rate of the non-oil sector by 2015 (baseline 2004 – 13,2%);
- Target 7:** Ensure sustainable development of the non-oil sector by 2015 (baseline 2004 – 69,3%, 2010 – 45%, 2015 – 66,7%). (To be checked)
- Target 8:** Increase the length of general motor-roads up to ____ km by 2015
- Target 9:** Increase electric power capacity up to __ GB by 2015;
- Target 10:** Ensure complete access to communication of all the country's regions and villages by 2008 (baseline 2004 - ???);
- Target 11:** Achieve a double increase in the foreign trade turnover (baseline 2004 – US\$ 7119,1 mln.).

Sector: Education Policy

Priorities:

- Priority 1: Improve management of education;**
- Priority 2: Ensure equal access to education;**
- Priority 3: Improve quality of education;**
- Priority 4: Adjust education to the needs of labor market;**
- Priority 5: Expand introduction of the new technologies (ICT) in the education system;**
- Priority 6: Improve statistics and monitoring of education.**

Targets:

- Target 1: Increase by 2.5 times the number of the children attending primary education after completing pre-schools (community/family type) by 2015;**
- Target 2: Ensure general education for all boys and girls by 2015;**
- Target 3: Maintain gender equality in the general education and improve gender equality in vocational, specialized secondary and higher education by 2015;**
- Target 4: Increase achievements in education by 2015;**
- Target 5: Ensure complete adjustment of the vocational education to the needs of labor market by 2015;**
- Target 6: Design adult education system to enable rapid adaptation to the economic and social changes by 2015;**
- Target 7: Increase use of information technologies in education by 2015.**

Sector: Health

Priorities:

- Priority 1:** Strengthen primary health care;
- Priority 2:** Design medical insurance system;
- Priority 3:** Conduct reforms in the sphere of health financing;
- Priority 4:** Strengthen information network to enhance monitoring of the health system;
- Priority 5:** Reform health education and adjust this to the ongoing processes in the health sector;
- Priority 6:** Strengthen preparedness against emergency cases and improve sanitary and epidemiological control.

Targets:

- Target 1:** Reduce under-5 child mortality rate by two third times during 2006-2015;
- Target 2:** Reduce maternal mortality rate by three fourth during 2006-2015;
- Target 3:** Undertake and build on preventive measures against HIV/AIDS by 2015;
- Target 4:** Undertake and build on measures to prevent and reduce incidence of malaria, TB and brucellosis by 2015;
- Target 5:** Undertake and build on preventive measures against the incidence of diabetes mellitus and heritable diseases to reduce the related mortality rate by 2010;
- Target 6:** Build on measures to reduce incidence of cardiovascular diseases by 2015;
- Target 7:** Improve access of the population to health services over 2006-2015;
- Target 8:** Increase life expectancy at birth up to 76 years by 2015 (for men 74,5; for women 77,5).

Sector: Gender

Priorities:

- Priority 1: Improve gender equality in education;**
- Priority 2: Expand access of women to adequate and quality reproductive health services;**
- Priority 3: Encourage women to employment in order to raise women's employment rate;**
- Priority 4: Increased attention on gender issues in the sphere of social protection;**
- Priority 5: Strengthen fight against the cases of violence and trafficking in women;**
- Priority 6: Raise public awareness on gender equality issues;**
- Priority 7: Design and implement Sound Family Policy;**
- Priority 8: Increase women's participation in decision-making;**
- Priority 9: Develop the gender equality mechanism;**
- Priority 10: More attention on gender issues among IDPs and refugees;**
- Priority 11: More attention on gender aspect in monitoring and evaluation.**

Targets:

- Target 1: Maintain gender equality in the general education and improve gender equality in vocational, specialized secondary and higher education by 2015;**
- Target 2: Achieve decrease in the gap between relative indicators on women and men's employment by 2015;**
- Target 3: Decrease to minimum violence against women by 2015;**
- Target 4: Decrease to minimum trafficking in women by 2015;**
- Target 5: Increase participation of women in decision-making up to 30% by 2015.**

Sector: Environmental Protection and Ecological Security

Priorities:

- Priority 1:** Maintain and expand the coverage of forest areas;
- Priority 2:** Sustainable management of water resources;
- Priority 3:** Prevent climatic changes, depletion of ozone layer and pollution of atmosphere;
- Priority 4:** Comprehensive waste management;
- Priority 5:** Ensure efficient use of land resources and prevent soil erosion and salinity;
- Priority 6:** Expand the use of alternative energy sources;
- Priority 7:** Maintain biodiversity;
- Priority 8:** Effective utilization of useful fossils and mineral resources;
- Priority 9:** Improve legal and regulatory framework on environmental protection;
- Priority 10:** Strengthen ecological education.

Targets:

- Target 1:** Increase proportion of forest areas to the overall land area up to 13% (baseline 2003 – 11.5).
- Target 2:** Decrease by twice the proportion of rural population without access to safe drinking water (baseline 2003 – 31%);
- Target 3:** Decrease water losses in the water supply system by 20% (baseline 2003 – 35%);
- Target 4:** Increase the share of irrigated planted areas supplied with water by 85% (baseline 2003 – 66.7%);
- Target 5:** Decrease standard fuel consumption per 1 kWt energy by 318 gr. (baseline 2003 – 386 gr.);
- Target 6:** Prevent increase of carbon dioxide emissions per capita above 8 kg. by 2015 (baseline 2003 – 3.6 per capita, kg.);
- Target 7:** Increase the share of neutralized toxic wastes up to 80%; (baseline 2003 – 1%);
- Target 8:** Utilization and neutralization of 40% of industrial and domestic wastes; (baseline 2003 – 4%);
- Target 9:** Treatment of 90% of wastewater in the big cities (baseline 2003 – 40%);
- Target 10:** Complete use of the land envisaged for planting (baseline 2003 – 74%);
- Target 11:** Increase the share of energy resources generated from wind, solar, water and other energy sources (baseline 2003 – 11.7%);
- Target 12:** Increase twice the proportion of protected forest areas to the overall land area (baseline 2003 – 7%).

Sector: Improving living conditions of refugees and IDPs

Priorities:

- Priority 1:** Provide refugees and IDPs with livable housing;
- Priority 2:** Increase income-generating (employment) opportunities of refugees and IDPs;
- Priority 3:** Improve access of refugees and IDPs to utility services;
- Priority 4:** Increase financial transparency in the assistance rendered to refugees and IDPs;
- Priority 5:** Improve statistic database on refugees and IDPs.

Targets:

- Target 1:** Complete provision of refugees and IDPs with livable housing (in newly repaired hostels and constructed temporary settlements (baseline 2004 – 35.0%);
- Target 2:** Improve access of IDP households to utilities services (baseline 2004 – water line - 75.0%, natural gas line – 32.0%, sanitation point – 77.0%, electricity – 93.0%);
- Target 3:** Reduce to minimum the poverty level among refugees and IDPs; (baseline 2004 – 51.0%);
- Target 4:** Adjust employment rate among refugees and IDPs to the average national employment rate (baseline 2004 – 30.0%);
- Target 5:** Increase access of refugees and IDPs to healthcare services;
- Target 6:** Reduce to minimum the incidence of infectious diseases among refugees and IDPs;
- Target 7:** Increase access of refugees and IDPs to education.

Sector: Social Protection Policy

Priorities:

- Priority 1:** Establish and improve targeted state social assistance system;
- Priority 2:** Improve the system of insurance and pensions;
- Priority 3:** Speed-up the social integration of vulnerable population groups;
- Priority 4:** Develop employment and strengthen social protection of the unemployed;
- Priority 5:** Improve the wage policy.

Targets:

- Target 1:** Adjust means testing to the subsistence level on a step-by-step basis by 2015 (baseline 2005 - 0%);
- Target 2:** Ensure complete move to single family benefits by 2015 (baseline 2005 - 0%);
- Target 3:** Ensure completely targeted social assistance benefits by 2015 (baseline 2003 - 55% (WB));
- Target 4:** Adjust the basic part of labor pensions to the national subsistence level on a step-by-step basis by 2015 (baseline 2004 - 50%);
- Target 5:** Adjust unemployment benefits to the subsistence level by 2015 (baseline 2004 - 12%);
- Target 6:** Adjust the minimum wages to the subsistence level on a gradual basis by 2015 (baseline 2004 - 60%).

Sector: Good Governance

Priorities:

- Priority 1:** Improve and continue restructuring of public administration;
- Priority 2:** Speed-up civil service reforms;
- Priority 3:** Continue juridical reforms;
- Priority 4:** Expand coverage of anti-corruption measures;
- Priority 5:** Strengthen role of municipalities in sustainable economic development;
- Priority 6:** Promote transparency in mineral extracting industries.

Targets:

- Target 1:** Raise management efficiency (note: According to the World Bank Institute³ this indicator was 20,2% in 1998 and 22,1% in 2004);
- Target 2:** Improve quality of regulation (note: According to the World Bank Institute⁴ this indicator was 13,0% in 1998 and 27,6% in 2004);
- Target 3:** Improve public administration and public administration institutions (According to the country rating by the International Development Agency⁵ Azerbaijan's average rate in this regard was 2,1 in 2000 and 2,4 in 2001);
- Target 4:** Raise law-enforcement level (note: According to the World Bank Institute this indicator was 20,5% in 1998 and 22,7% in 2004);
- Target 5:** Achieve legal education of the population;
- Target 6:** Improve performance in the judicial agencies and bring this in line with modern requirements and existing experience of the developed countries;
- Target 7:** Achieve increased professional level of the judicial personnel;
- Target 8:** Achieve improved legal expertise of legal and regulatory deeds;
- Target 9:** Strengthen control on corruption (note: According to the World Bank Institute this indicator was 5,5% in 1998 and 10,8% in 2004).

³ Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004.

⁴ Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004.

⁵ Evaluation is based on a 5-score system. The highest score is 5.

Sector: Youth Policy

Priorities:

- Priority 1: Ensure employment of the youth;**
- Priority 2: Strengthen social protection of the youth;**
- Priority 3: Strengthen measures to promote patriotic love among the youth;**
- Priority 4: Promote healthy life style among the youth;**
- Priority 5: Enable the youth to more closely engage in country's social and political life;**
- Priority 6: Develop skills of the talented and creative youth;**
- Priority 7: Effective organization of leisure time for the youth.**

Targets:

- Target 1: Reduce unemployment of the young people;**
- Target 2: Reduce abuse of drugs, tobacco and alcohol among the youth;**
- Target 3: Prevent HIV/AIDS incidence among the youth;**
- Target 4: Prevent early pregnancy cases;**
- Target 5: Achieve mass engagement of the youth in sports;**
- Target 6: Reduce violations among the youth;**
- Target 7: Raise the level of housing of young families.**

Azerbaijan Public Investment Policy (PIP) Project

**Azerbaijan Republic
Public Investment Program and Policy**

MANUAL OUTLINES

1. Introduction

1.1.Objectives/purpose of the Manual

1.2.Essential Definitions

Technical details on project cycle, particularly details of cost-benefit analyses, project appraisal techniques, monitoring and evaluation technical details will not be provided by this Manual. However separate reference Manual will be developed for those technical details with appropriate examples and case studies on the bases of training materials to be developed as part of the PIP Project formal training program.

In this section definitions of the public investment policy, public investment programs and projects will be given. Coverage and the period of the PIPP and PIP will be defined. Project cycle elements and other investment project related definitions will be described.

2. Strategic planning and public investment policy

2.1.Strategic planning process: national and sectoral strategic development planning

2.2.Public investment policy

2.3.Linking planning, budgeting and investment policy and program

This section will describe proposed stages of the strategic planning (macro, sector and project planning) and their interrelations with more emphasis on the general public investment policy; relations with the recently developing State Program on Poverty Reduction and Sustainable Development and Regional Development Program. PIP Project technical notes on HPIC and SSDP could be used as a starting point. Idea and process of linking strategic plans, medium term budget and investment program needs to be described here as well.

3. Public Investment Program

- 3.1. Coverage of the PIP
- 3.2. PIP Classification¹
- 3.3. PIP Preparation process
- 3.4. PIP Prioritization process and criteria
- 3.5. PIP discussion procedures
- 3.6. PIP approval
- 3.7. PIP implementation, monitoring and evaluation
- 3.8. Stakeholder participation in the PIP preparation

4. Public Investment Project Cycle

- 4.1. Overview of the project cycle
- 4.2. Project identification
- 4.3. Project preparation and negotiation
- 4.4. Project appraisal and approval
- 4.5. Project implementation
- 4.6. Project monitoring
- 4.7. Project evaluation (ex-post)
- 4.8. Stakeholders participation

Attachments²

Attachment 1: PIP timeframe

Attachment 2: Forms/examples of documents to be presented to MoED by LMs

¹ For the purpose of integration with the budget, economic and functional classification of the budget could be applied in the PIP preparation, with expansion of the relevant items if necessary.

² Other attachments could be developed as needed.

QUARTERLY PROGRESS PLAN FOR THE PIPP MANUAL DEVELOPMENT

PIP Manual Sections/ Modules	Relevant Work Plan's Task	Q3/05	Q4/05	Q1/06	Q2/06	Responsible person
1. Introduction					X?	Durdag?
2. Strategic planning and public investment policy						
Proposal on the appropriate organizational and procedural arrangements to develop and update the sector development objectives, strategies and public investment policies within a SSDP	Task 5	X				Parinov
Procedural rules and regulations for the review and evaluation of sector development programs and sector MTEFs by MOED	Task 10d				X	Durdag
Organizational and procedural rules and regulations for the review and evaluation of sector capital spending programs and investment projects by MOED	Task 11d				X	Durdag
Proposal on the procedures for the cooperation between MOED and MOF on the overall formulation of capital spending	Task 12b		X			Durdag
Proposal on the procedures of recurrent expenditure implication of the capital spending proposals	Task 13			X		Hasanova
3. Public Investment Program						
Proposal on the procedures for monitoring and evaluation of the Public Investment Programs and Projects	Tasks 14b,c and 26b,c				X	Hasanova
Proposal on the procedures for identification, formulation	Task 15b,c			X		Parinov

and prioritization of the capital spending (investment), policies and projects						
Guidelines on the Participatory process	Tasks 7,17		X			Parinov, Hasanova
4. Public Investment Project Cycle (or alternatively: Public Investment Projects preparation, appraisal, implementation, monitoring and evaluation procedures)						
Project appraisal, preparation and negotiations procedures	Task 19, 23			X	X	Parinov
Proposal on the procedures for monitoring and evaluation of the Public Investment Programs and Projects in Central and Line Ministries	Tasks 14b,c and 26b,c				X	Hasanova
Guidelines on the Participatory process	Tasks 7,17		X			Parinov, Hasanova
Guidelines on the unit costs and user fees in the projects	Task 21			X		Durdag
First Draft PIPP Manual					X	Durdag
Final Draft PIPP Manual					Q3/06	Durdag

**Azerbaijan Republic
Public Investment Policy Project (PIPP)**

**Scope of Work
for Short Term Technical Assistance for Q4 2005
Sectors: Tourism and Environment**

Oton Iskarpatyoti

Background and Rationale

The primary objective of the PIPP Project is to help strengthen the Government of Azerbaijan's institutional capacity for: (a) long-term national and sectoral development and policy planning; (b) capital budget formulation; and (c) investment project preparation, appraisal, monitoring, and evaluation. In May, 2005 The PIP Project team, with the support of short-term technical specialists (STTSs), has completed a Diagnostic Review of the key central and sectoral government agencies involved in PIPP-related work and identified the needs for technical assistance and training for year one and through the project duration. The STTSs' findings and recommendations have been greatly appreciated and used in the preparation of the PIPP Work Plan (WP) and Training Plan (TP), which identified specific and detailed tasks and expected outputs on quarterly basis through the life of the PIP project. During Q3 and Q4 of 2005, the PIP Project has been focusing on the establishment of procedures and guidelines for:

- (a) sector strategic development planning and its compliance with the country's overarching policy objectives, MTEF and PIP;
- (b) increasing the MOED's capacity to review and evaluate sector development and capital spending programs and investment projects; and
- (c) assisting the central ministries in the development of the organizational and procedural rules and regulations for the review and evaluation of the investment programs.

The STTSs are expected to contribute to the implementation of the PIPP WP tasks related to the above areas and planned for the 3rd and 4th quarters of 2005. In this work, they will be helped by their sector experience from their previous assignment with the PIP project, Sector Strategic Development Plan (SSDP) Guidelines, and the recent reviews of SSDPs prepared by the local experts of PIPP. More specifically, the Environment and Tourism Sectors STTS is expected to perform the specific tasks/activities and deliver the outputs as indicated below:

Tasks/Activity Areas:

I. Get familiarized with the PIPP Work and Training Plans (mainly with Work Plan Tasks # 4, 5, 6, 7a, 9a, 10a and b, 11a and b, 13a, 15a, and 17a), as well as the PIPP Internal Guide on the Preparation of the Sector Strategic Development Plan (SSDP Guidelines) and the Sector SSDP's Reviews on Environment and Tourism prepared by the PIP Project sector specialist (all five documents are attached).

II. Sector Strategic Development Planning

- 1) Advise on the preparation of environment sector priorities as part of instructions for the next "rolling MTEF" (Task 4);
- 2) Advise on the preparation of tourism sector priorities as part of instructions for the next "rolling MTEF" (Task 4);
- 3) Review and comment on the PIPP draft SSDP Guidelines, which is meant to be incorporated into the planned PIPP Manual;
- 4) Propose appropriate organizational and procedural arrangements in the Ministry of Youth, Sport and Tourism (MYST) to develop or update its SSDP in line with the draft Guidelines (Task 5 & 6);
- 5) Propose appropriate organizational and procedural arrangements in the Ministry of Ecology and Natural Reserves (MENR) to develop or update its SSDP in line with the draft Guidelines (Task 5 & 6);
- 6) Provide on-the-job-training to the Sector (Environment & Tourism) staff at MOED and MOF on the review and evaluation of the sector development programs and sector MTEF while conducting meetings on the above tasks (Task 10a).
- 7) Advise MYST, MENR and MOED on setting-up a database and a depository library on tourism & environment sectors (Task 10b).

III. Investment Programs and Projects

- 1) Help draft proposal on the organizational and procedural rules and regulations for the review and evaluation of the sector (Environment & Tourism) investment programs and projects by the MOED's Public Investment Division and Investment Policy Department, including setting-up a database of sector investment projects (Task 11);
- 2) Review and evaluate the existing practice to analyze recurrent expenditure implications of capital spending proposals by the Ministry of Youth, Sport and Tourism and Ministry of Ecology and Natural Reserves (Task 13a);
- 3) Review and evaluate the current procedures and practices, both formal and informal, used by both Ministries in identifying, formulating and prioritizing capital spending (investment) policies and projects (Task 15a);

IV. Participatory process

- 1) Review and evaluate the current statutory procedures and both formal and informal practices for participatory processes and practices in the formulation of the Environment and Tourism sectors' capital spending proposals (Task 7a);
- 2) Help formalize the procedures and processes of consultation with all non-government stakeholders of the proposed capital spending programs and projects of the sector ministries (Task 17a).

V. Training Plan

- 1) Review and evaluate the proposed PIPP Training Course Plan and Content;
- 2) Analyze specific training needs and priorities, identify different target groups and training topics in the both ministries.
- 3) Advise PIPP staff on the development of an efficient Curriculum of the PIPP Training Program.

Deliverables:

The STTS will produce separate technical notes on Tasks II-V above, which would cover all the sub-tasks referred and contribute very much to the preparation of the PIPP Manual. Moreover, the STTS together with a local sector expert will provide on-the-job-training to MOED, MOF and line ministries' staff while interacting with them in connection with the tasks of this SOW.

Timing:

The expert's visit is planned for 20 work days (including Saturdays) starting by early November and covering 17 days in-country and 3 days home-country work. The expert will be accompanied by Mr. Hadji Husseynov, the PIPP local expert on productive sectors, who is also responsible for Tourism and Environment.

Attachments:

1. PIPP Project Work Plan
2. PIPP Project Training Needs Assessment and Training Plan
3. PIP Project Internal Guide: Preparing a Sector Strategic/Development Plan (SSDP)
4. Sector Strategic Development Plan (SSDP): Tourism Sector
5. Sector Strategic Development Plan (SSDP): Environment Sector

Azerbaijan Republic

Public Investment Policy Project (PIPP)

Scope of Work for Short Term Technical Consultant for Q4 2005
Sector: **Infrastructure (Transport & Energy)**

Ron Quist

Background and Rationale

The primary objective of the PIP Project is to help strengthen the Government of Azerbaijan's institutional capacity for: (a) long-term national and sectoral development and policy planning; (b) capital budget formulation; and (c) investment project preparation, appraisal, monitoring, and evaluation. In May, 2005 the PIP Project team with the support of short-term technical specialists (STTSs) has completed a Diagnostic Review of the key central and sectoral government agencies involved in PIPP-related work and identified the needs for technical assistance and training for year one and through the project duration. The STTSs' findings and recommendations have been greatly appreciated and used in the preparation of the PIPP Work Plan (WP) and Training Plan (TP), which identified specific and detailed tasks and expected outputs on quarterly basis through the life of the PIP project. During Q3 and Q4 of 2005, the PIP Project has been focusing on the establishment of procedures and guidelines for:

- (a) sector strategic development planning and its compliance with the country's overarching policy objectives, MTEF and PIP;
- (b) increasing MOED's capacity to review and evaluate sector development and capital spending programs and investment projects; and
- (c) assisting central ministries in the development of the organizational and procedural rules and regulations for the review and evaluation of the investment programs.

The STTSs are expected to contribute to the implementation of the PIPP WP tasks related to the above areas and planned for the 3rd and 4th quarters of 2005. In this work, they will be supported by their sector experience from their previous assignment with the PIP project, and the Sector Strategic Development Plan (SSDP) Guidelines and the recent reviews of SSDPs prepared by the PIPP staff. More specifically, the Infrastructure Sector STTS is expected to perform the specific tasks/activities and deliver the outputs as indicated below:

Tasks/Activity Areas:

I. Get familiarized with the PIPP Work and Training Plans (mainly with Work Plan Tasks # 4,5,6, 7a, 9a, 10a and b, 11a and b, 13a, 15a, and 17a), as well as the PIPP Internal Guide on the Preparation of the Sector Strategic Development Plan (SSDP Guidelines) and the SSDP Reviews for Energy and Transport sectors prepared by the PIP Project sector specialists (all five documents are attached).

II. Sector Strategic Development Planning

- 1)** Advise on the preparation of infrastructure sector priorities at MOIE and MOT as part of instructions for the next "rolling MTEF" (Task 4);

- 2) Review and comment on the PIPP draft SSDP Guidelines, which is meant to be incorporated into the planned PIPP Manual;
- 3) Propose appropriate organizational and procedural arrangements in the Ministry of Transport (MOT) and the Ministry of Industry and Energy (MOIE) to develop or update its SSDP in line with the draft Guidelines (Task 5 & 6);
- 4) Provide on-the-job-training to the infrastructure sector staff at MOED and MOF on the review and evaluation of the sector development programs and sector MTEF while conducting meetings on the above tasks (Task 10 a).
- 5) Advise MOIE, MOT, and MOED on setting-up a database and a depository library on the transport and energy sectors (Task 10 b).

III. Investment Programs and Projects

- 1) Help draft proposal on the organizational and procedural rules and regulations for the review and evaluation of the Ministry of Transport and Ministry of Industry and Energy's investment programs and projects by the MOED's Public Investment Division and Macroeconomic Policy Department, including setting-up a database of infrastructure investment projects (Task 11);
- 2) Review and evaluate the existing practice to analyze recurrent expenditure implications of capital spending proposals by the MOT and MOIE (Task 13a);
- 3) Review and evaluate the current procedures and practices, both formal and informal, used by the Transport and Energy Industry Ministries in identifying, formulating and prioritizing capital spending (investment) policies and projects (Task 15a).

IV. Participatory process

- 1) Review and evaluate the current statutory procedures and both formal and informal practices for participatory processes and practices in the formulation of the Transport and Energy Sectors' capital spending proposals (Task 7a);
- 2) Help formalize the procedures and processes of consultation with all non-government stakeholders of the proposed capital spending programs and projects of the MOT and MOIE (Task 17a).

V. Training Plan

- 1) Review and evaluate the proposed PIPP Training Course Plan and Content;
- 2) Analyze specific training needs and priorities; identify different target groups and training topics in the infrastructure line ministries;
- 3) Advise PIPP staff on the development of an efficient Curriculum of the PIPP Training Program.

Deliverables:

The Infrastructure Sector STTS will produce separate technical notes on Tasks II-V above, which would cover all the sub-tasks referred and contribute very much to the preparation of the PIP Manual. In addition, the STTS together with a local sector expert will provide on-the-job-training to MOED, MOF and selected infrastructure line ministries' staff while interacting with them in connection with the tasks of this SOW.

Timing:

20 work days, including Saturdays, with 17days for in-country work and 3 days for home-country work during November-December 2005.

Attachments:

1. PIP Project Work Plan
2. PIP Project Training Needs Assessment and Training Plan
3. PIP Project Internal Guide: Preparing a Sector Strategic/Development Plan (SSDP)
4. Technical Note on the Preparation of the Sector Strategic Development Plan (SSDP): Ministry of Industry and Energy
5. Technical Note on the Preparation of the Sector Strategic Development Plan (SSDP): Ministry of Transport

The Public Investment Policy Project

**Short-term Local Expert on Public Education and Awareness for
Participatory Planning and Budgeting**

Scope of Work

Rationale

One of the main objectives of the Public Investment Policy Project (PIPP) is to help the Government of Azerbaijan (GOAZ) to strengthen the appropriate channels to non-government stakeholders (civil society, non-government organizations, political parties, the private sector and workers' organizations, and citizens) for consultation and feedback on national, regional, and sectoral development objectives and strategies. The PIPP also aims at helping the GOAZ to improve its organizational and procedural set-up for strengthening the role of non-government stakeholders in the formulation of the public investment policy.

The State Program for Poverty Reduction and Economic Development (SPPRED) for 2003-05 had been prepared with a broad participatory process allowing the civil society, NGOs, workers' and business organizations; academics, and donor agencies to join the Sector Working Groups and contribute to the formulation of national and sectoral development objectives, strategies and policies. The next SPPRED for 2006-15, which is now under preparation, is expected to follow the same participatory approach. To the extent that SPPRED's national and sector development objectives, strategies and policies are reflected in the Sector Strategic Development Programs (SSDPs), including the sector public investment policies and projects, such Programs would represent the convergence of bottom-up and top-down planning processes at the line agencies level. Nonetheless, in reality there is little, if any, organic and formal linkage between the SPPRED and public investment policy and its projects content due partly to the SPPRED's lacking adequately SMART (specific, measurable, achievable, realistic and time-bound) targets and partly to the fragmented state of public investment policy formulation.

The citizen participation process provides an opportunity to the GOAZ to obtain important feedback on public policy proposals from interested non-government stakeholders. In addition, if citizens feel that their opinion and proposals are appreciated and taken into account by the government, they are more likely to support new policies and development programs. Public involvement is especially important in the budget and planning processes. In a democratic state, citizens should be provided with information on how budgetary funds are utilized and what socio-economic results (effects) are achieved.

Therefore, the PIPP sees the purpose of activities under this SOW as supporting the USAID Strategic Objective 2: Democracy and Governance, and its two Intermediate Results: IR 2.1.1: Increased capacity and demand of citizens to engage in policy and

decision-making, and IR 2.1.2: Strengthened institutions and opportunities for citizen participation in decision making. More specifically, the PIPP Work Plan aims at directly addressing these objectives through the following tasks:

A.3: Enhance the appropriate channels and venues between the GOAz and non-government stakeholders (Civil Society, Non-Government Organizations, the political parties, the private sector and worker's organized representatives) for consultation and feedback on national, regional and sectoral development objectives, strategies and investment policies.

B.3: Encourage and support the Line Agencies' initiatives to consult with as wide a spectrum of business and grassroots representatives as possible in formulating the sector capital spending strategies and projects.

C.3: Help the government and non-government stakeholders of public investment programs and projects to use improved communication channels and dialogue for more effective participation of the latter in the development, prioritization and monitoring of public projects.

Tasks for the Local STTA:

1. Review the existing methods and techniques of information sharing and information exchange between the government agencies and non-government stakeholders (the civil society, non-government organizations, the political parties, and the private sector and workers' organizations).
2. Review and evaluate the current participatory processes and practices by which the relevant non-government stakeholders are involved or consulted by the line ministries in the preparation of their submissions to MOF and MOED for the State Budget and the Public Investment Program. Also, identify the linkages of non-government stakeholders to the SWGs established in connection with the Poverty Reduction (SPPRS, RDP, other) documents. Propose improvements in the current participatory procedures and practices.
3. Assist the selected line ministries in drafting a technical note on the procedures and processes of consultation with all non-government stakeholders of their proposed capital spending programs and projects.
4. Prepare a presentation and appropriate handouts to the counterpart agencies to discuss his findings and recommendations.
5. Meet with the selected NGOs, civil organizations and other stakeholders to reveal the status of civil society role in GOAZ decision-making in planning and budgeting issues.

Deliverables:

1. A technical note on the existing methods and techniques of information sharing and exchange by the central and selected line ministries with non-government stakeholders (Civil Society, Non-Government Organizations, the political parties, the private sector and workers organizations).
2. A technical note on the procedures of consultation for the preparation of Sector Strategic Development Programs and inputs for the State Budget and the PIP by the selected line ministries with all non-government stakeholders of the proposed capital spending programs and projects.
3. The presentation materials (Power Point format) and handouts (Word and Excel formats) on the subject matter.

Assignment Duration – 5 weeks (25 work days):

- 2 weeks – for diagnostic work;
- 2 weeks – preparation of the two technical notes and presentation materials as noted above; and
- 1 week – presentation of findings to the counterparts and NGO/civil society groups.

Reporting:

The Expert will report to the PIPE DCOP (Andrei Parinov), who will lead the task under the overall guidance by the PIPE COP (Metė Durdag). The Expert will also hold regular consultations with the PIPE sector experts and STTAs.



USAID
FROM THE AMERICAN PEOPLE

**Public Investment
Policy Project**

Attachment 6.

AZERBAIJAN: PIP PROJECT
PUBLIC INVESTMENT POLICY PROJECT

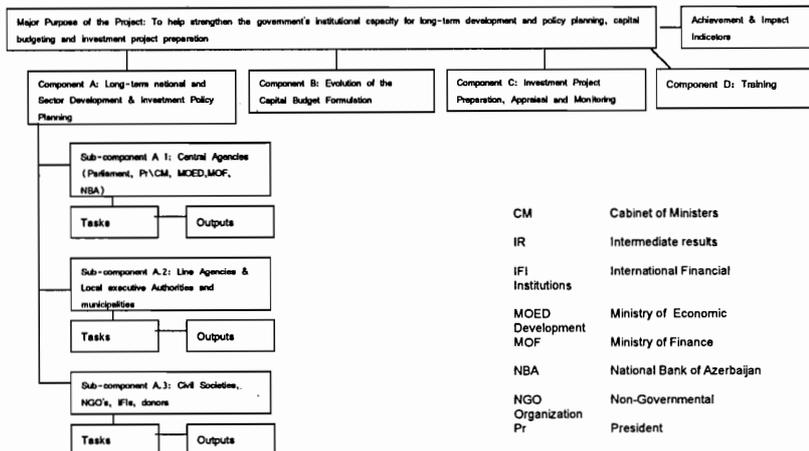
December, 2005



USAID
FROM THE AMERICAN PEOPLE

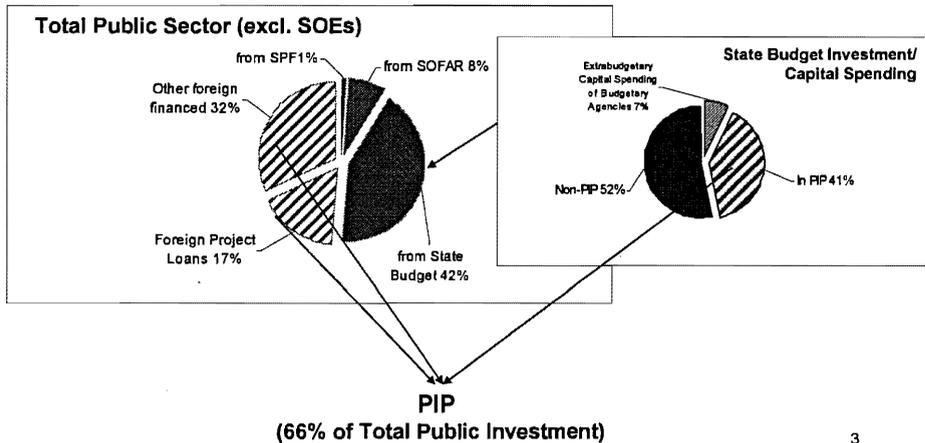
**Public Investment
Policy Project**

PIP Project Roadmap





Public Sector Investment 2005 (Planned)



Public Sector Investment Programming The Current Situation

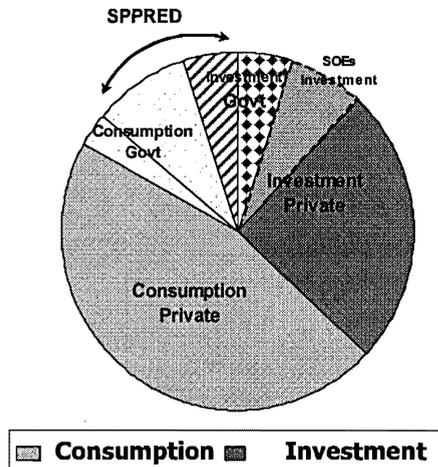
- Total Public Sector investment is determined in a highly fragmented manner.
- There is no any comprehensive public investment policy formulation.
- The PIP is only a collection of some public investment projects selected on ad hoc basis.
- The present fragmented state of public investment policy in Azerbaijan deprives the government of the opportunity to accelerate the social and economic development of the country.



USAID
FROM THE AMERICAN PEOPLE

**Public Investment
Policy Project**

AZERBAIJAN TOTAL RESOURCE USE IN 2004



USAID
FROM THE AMERICAN PEOPLE

**Public Investment
Policy Project**

Importance of Investment

- **Total resources** = Gross Domestic Product + net imports (- net exports).
- Total resources are used for either **consumption or investment**.
- The people's **welfare and satisfaction with the Government** depends on the level of total consumption and its distribution by **income classes, social groups, and regions**.
- **Investment** is very important because it increases:
 - **Production capacity** and thus **future consumption**; and
 - **Aggregate demand** and thus **inflationary pressure** that may reduce real consumption
- Both the **quality (technology) and distribution of investment** is critical to the level, quality and distribution of future consumption, and hence the people's future welfare.



USAID
FROM THE AMERICAN PEOPLE

Public Investment Policy Project

Importance of Public Investment

- Government can decide how much of the total resources it will use and how to divide it between **public consumption** and **public investment**. This strongly affects the people's welfare.
- Everything said before for investment is also valid for public investment.
- In addition, public investment influences the future level and composition of public consumption, and thus the people's future welfare.
- Public investment also influences the level, composition and productivity of future private investment, which in turn affects future consumption (welfare) of the people.
- Government also influences SOEs' investments, which are part of non-government investment in a market economy.

Conclusion

- Public investment policy is a **very powerful instrument** in managing social and economic development of the economy; and,
- The formulation of a sound public investment policy and program is a skill-intensive task, and, hence, should be left to specialists once the government sets the national and sectoral development objectives and strategies.

7



USAID
FROM THE AMERICAN PEOPLE

Public Investment Policy Project

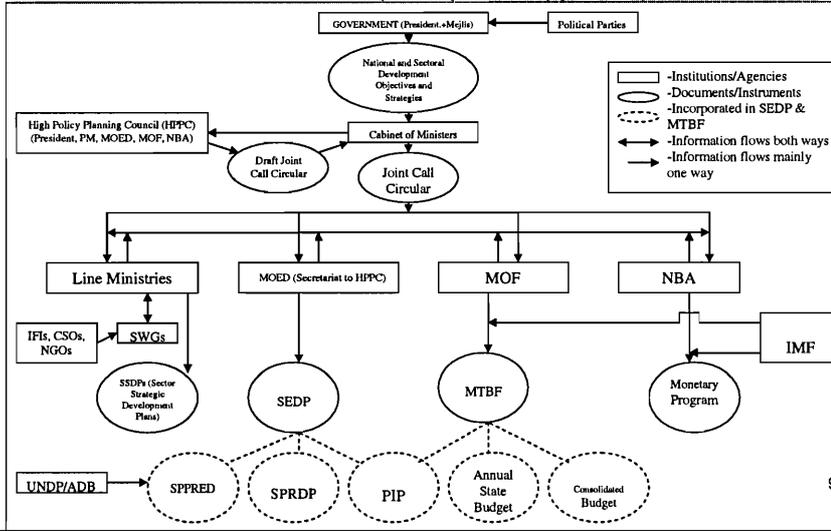
How remedy the fragmentation in Public Investment Programming

- Clearly identify the long- and medium-term national and sectoral development objectives and strategies;
- Adopt **SMART** (Specific, Measurable, Achievable, Result-oriented, and Time-bound) medium-term targets and the necessary policies and projects to attain them;
- Assure the **consistency** of all major targets, strategies and policies with national and sectoral development objectives as well as with each other;
- Based on all these, issue early in each fiscal year a "**Joint Call Circular**" (JCC) to all government organizations to guide and instruct them for their planning and budgeting submissions to MOF and MOED;
- Make the **PIP a policy instrument** for a comprehensive review, evaluation and guidance of the government's public investment policy;
- Instruct all line ministries to prepare a **SSDP** incorporating all sub-sector programs and serving as the basis for each ministry's unified response to JCC.
- This practice could be coordinated and based on technical grounds by a Cabinet sub-group that may be called the **High Policy Planning Council (HPPC)**.
- **Secretariat services** to the HPPC could be provided by MOED, in close cooperation with MOF and ANB, considering that the work involved is essentially of the planning nature.

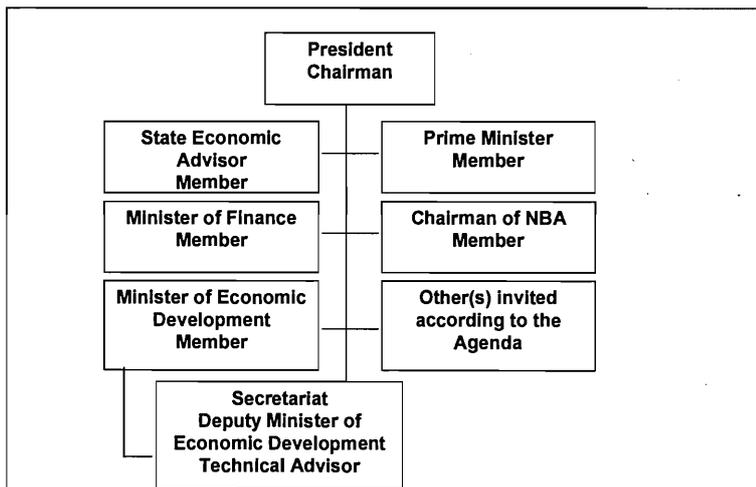
8



**FLOW OF INFORMATION FOR PLANNING & BUDGETING
PROCESSES (A Proposed Approach)**



Azerbaijan Proposed Structure of the HPPC



DAI/PIPE Baku Office

Memo

To: Mr. Mete Durdag
From: Sevinj Hasanova
Date: January 26, 2006
Cc: A. Parinov, S. Shikhaliyeva
Re: RMSM-X training in Moscow December 12-21, 2005

Dear Mete bey,

Fifteen officials from the GoAZ and I participated in a World Bank RMSM-X Model training workshop, which was organized jointly by the PIP Project, the World Bank, and the World Learning Center. The participants were from the Ministry of Economic Development, including the Center for Economic Reforms, the National Bank and the Ministry of Finance (Attachment 2). The training took place in Moscow, Russia on December 12-21, 2005.

1. Objectives of the training

The PIP Project proposed the RMSM-X model training as one of the steps in the implementation of the PIP Project Task 3, which aims to enhance the capacity of MoED in developing an appropriate medium-term macroeconomic and sector framework for evaluation of public investment strategies and policies.

In this regard PIP Project will work with the MOED to develop the necessary capacity and database to be able to use the IMF Financial Programming Model and the WB's Revised Minimum Standards Model-Extended (RMSM-X). The RMSM-X is recognized as the more relevant model for sectoral analysis. It represents the flow-of-funds accounting framework, which integrates into a consistent accounting framework the budget and other public sector accounts, the balance of payments or "rest of world" account, the monetary sector account, a private sector account, and other relevant variables from the national accounts.

For the GoAZ to base its economic forecasts and decision making on a consistent and formal macroeconomic and sectoral framework, it is important that the staff of MoED is able to work

initially with packaged modeling modules and later on to build on them. Towards that end, the World Bank training on RMSM-X Model was a substantial input. However, extensive formal and on-the-job training will be needed for the GoAZ to gain the skills to manipulate confidently macroeconomic analysis for economic policy decision-making.

The core objective of the training workshop was to provide the technical people in the central economic agencies of the GoAZ with the knowledge of consistent economic modeling, database creation and economic analysis techniques. It was expected that the participants at the end of the training course would be able to:

1. Understand the importance of the macro modeling for the development of Azerbaijan's medium to long-term development strategies and policy analyses and the ways to translate new concepts into the Azerbaijan context;
2. Get familiarized with the different types of the economic models; learn their strengths and constraints;
3. Understand the structure and the purpose of the RMSM-X type of models;
4. Operate with the consistent framework: understand the Flow of Funds methodology, operate data sources, and create and maintain consistent database, including original, calculated and residual data;
5. Organize and incorporate the pipeline; identify new and non-identified debt into the RMSM-X;
6. Use the Azerbaijan Oil Module results as an input into the Flow of Funds database;
7. Understand the different solution methods or closure rules and the behavioral structure of the Model;
8. Use the RMSM-X Model in policy analysis (baseline, low, high scenarios).

2. General assessment of training

Based on my personal observation, as well as on the reactions and comments from the trainer and the participants, the training was timely and quite successful. The core objectives of the training were essentially met. The participants became familiar with different types of models; understood the role of the consistency models for the development of medium and long term development policies; became comfortable with structure and purpose of RMSM-X model, its database and operations, different closure rules, and debt model. The success of the training was the result of various factors. These included the narrow focus of the training on Azerbaijan, the correct choice of participants from the relevant economic agencies of GoAZ, and the experienced trainer with Azerbaijan-specific knowledge. In addition, the GoAZ participants with similar abilities and interests were brought together to work and learn about a new exciting initiative. The participants became colleagues and team members, shared their work experiences from Azerbaijan and formed bonds, which they will use and benefit from when they are back in Azerbaijan. The training workshop was an excellent beginning for the PIP Project and other donors to continue the macro modeling work in the MoED.

The training showed that inadequate knowledge of national and sector statistics was the major obstacle in the understanding of the inter-sectoral relations and balancing. This was mainly the result of the hurried preparation of this particular training session. If there had been more time

or the program were held in Washington, DC as the program was initially planned by the trainer, the IMF Statistics Departments would have helped to provide accounting framework before moving to the modeling.

3. Participants

The right choice of participants, done principally by the PIP Project with agreement of the relevant agencies assured the active interest and dedication of the participants over the whole training period. The level of knowledge of modeling work varied substantially among the participants. The ANB staff was already working on financial programming model at the Bank, while MoED's CER research-oriented staff was not familiar at all with the flow-of-funds framework. This still turned out to be a positive state of affairs because the highly detailed questions from the CER members helped the participants to understand of the strengths and weaknesses of WB RMSM-X model more clearly and the trainer to be much more productive. While participants had different skills and experiences in modeling, their knowledge of basic SNA and sector statistics and their interrelations was uniformly poor. This points to the strong need for comprehensive training in national and sector accounts.

During training, all the participants expressed interest in introducing and developing a consistency macro model for Azerbaijan. In this regard, every course participant is a potential candidate for the technical macro modeling group to be established under the CER, or in MoED/DEPF. In particular, three participants from the MoED can be very successfully involved in economic modeling work: Rahim Babayev and Lala Ahmedova from Macroeconomic Forecasting Division and Faig Gasymlly from the PIP Division. Any further extensive capacity building should be initially concentrated on these three candidates.

4. Trainer

Training was conducted by the World Bank expert Mr. Thilak Ranaweera, who specializes in conducting RMSM-X modeling courses. Mr. Ranaweera's previous specific experience with Azerbaijan model (He had worked on Azerbaijan RMSM-X during Public Expenditure Review missions of the World Bank in Azerbaijan) allowed him to answer wide range of questions from the participants. Mr. Ranaweera's excellent knowledge of the Russian language was a very valuable asset in conducting the training directly in one language. The discussions could proceed naturally. It saved much time on translating and avoided costly misunderstandings, which always accompany translations. All the participants appreciated his attentiveness and patience over the entire time of the course.

5. Training facility and materials

The World Bank office in Moscow provided good and appropriate facilities for the training. In our view, some of the quality of the training materials distributed to the participants could have been better prepared. The major complaint in this regard was inadequate proof readings of the translations. Particularly, the case studies, which play crucial role in the learning process was sometimes unusable. The participants also did not receive electronic versions of these materials. The participants were provided only with the simplified version of the standard

RMSM-X model, adopted for Azerbaijan to work out different scenarios. While all participants were very interested to work on real RMSM-X model for Azerbaijan, this was not possible to arrange. At the time, the World Bank work on real RMSM-X model had not been completed.

6. Organization

The organization for the course was quite good given the short time, which the World Learning Center was given to prepare. However, during the course, some participants expressed concerns with transportation and hotel and coffee-breaks. I passed these concerns on to the WLC, as well as to the course contact person in Moscow. For the next course preparations these issues can be addressed.

7. PIP expert participation

As a PIP Project representative, I clarified to the participants many issues with regard to Azerbaijan's circumstances. Also, because I knew all the participants, I helped the trainer to create better work groups, assisted him in coordination of the group exercises, and brought his closer attention particularly on the MoED participants.

8. Proposal for further modeling works in Azerbaijan:

The following actions could be recommended for the PIP Project assistance in the macroeconomic framework development in Azerbaijan:

- Because the real RMSM-X model for Azerbaijan was not provided to the participants in Moscow training, it is important that the World Bank finalize the work on it and conduct the follow-up training for all participants, particularly for MoED staff. The World Bank should install the Azerbaijan model in the Macroeconomic Forecasting Division of MOED/DEPF and train its staff on the use of model (particularly Rahim Babayev, who potentially could be leading the process).
- As was noted above, there is a huge gap in understanding of the national accounts system, as well as its interrelation with the sector accounts. Therefore, there is strong need for extended training for all MoED, ANB and MoF experts in SNA, GFS, monetary and BOP statistics (international and local). For this purpose I would suggest that PIP Project, jointly with the IMF, the WB and WLC, arrange a separate course on the subject for GoAz officials in Washington, or in Baku, using the IMF specialists. At the same time participants could also be sent to attend appropriate courses at the IMF Institute or at Joint Vienna Institute. In a similar vein, the GoAz officials themselves can teach the relevant accounts used in their agencies to all other economic agencies (MoF on budget classification, MOED/SSC on National Accounts, ANB on monetary and MOED/ANB on BoP). These will be a kind of follow-up on their training and will improve local capacity.
- The MoED needs the assistance of the PIP Project in developing the macro consistency framework in the short-term. This can start with very simple financial programming framework and then further develop it into the comprehensive

framework used by the IMF for their country programs. In other words, MoED together with ANB and MoF can start performing the work done by the IMF country missions. For this to happen there is also a need to collect and combine wide range of available information and develop a macroeconomic database in the MoED for use in the model and analysis. The description of the information and the database to be compiled as well as procedures for maintaining it must be worked out. The State Statistics Committee will be extensively involved in this work.

- Work on RMSM-X for Azerbaijan can be continued for now and updated when the WB model for Azerbaijan is received. The MoED could study the model, bring it into conformity with developed database and make appropriate changes to the model in order to address the Azerbaijani situation. Working with two models, the MoED can make a decision as to which model better addresses the current needs of GoAZ and needs further development.
- In the medium term, MoED/DEPF can cooperate with ANB and CER (in the current macroeconomic modeling project of the ADB) for further development of Azerbaijani macro model by integrating the results of other developed models (inflation, ER, econometric model...) in the consistency framework of RMSM-X, or financial programming framework, depending on MoED's decision.
- Further training in modeling for the MoED, MoF, ANB, and CER staff would be of great help after the database and simple FPM are developed and understood.

Attachments:

- 1. Suggested timeframe for PIP Project macro forecasting activities, 2005-2006**
- 2. List of participants by working groups**
- 3. Training agenda**
- 4. Thilak Ranaweera: Office Memorandum on Workshop on RMSM-X in Moscow, Dec 12-21, 2005by**
- 5. Photos from Training**

Attachment 1**Suggested timeframe for PIP Project
macro forecasting activities, 2005-2006**

	Dec	Jan	Feb	Mar	Apr	May
RMSM-X training in Moscow	X					
Macro and sectoral strategies, priorities and targets		X				
Simple financial programming framework		X	X	X	X	
Detailed database of macro and sectoral information, updating mechanism		X	X	X	X	X
Azerbaijan RMSM-X framework updated by World Bank				X	X	
2007-2010 final macro forecast						X

Attachment 2

World Bank RMSM-X Model Course
December 12-21, 2005, Moscow, Russia

List of Participants by Working Groups

Group I

1. Jafarov Fikret 186	MOED		(994 12) 4924110
2. Ahmedova Lala	MOED	l.ahmadova@gmail.com	(994) 50 3270445
3. Guliyev Rovshan	CER	rovshanguliyev@hotmail.com	
4. Orujev Eldeniz	MOF	a_eldeniz@mail.ru	(994) 50 3169869
5. Gasimly Faig	MOED	faiqasim@yahoo.com	

Group II

1. Abbasova Saida 184	MOED	saidaabas@yahoo.com	(99412) 4924110
2. Agayev Aga-Nemat	CER	a.agayev@yahoo.com	(994) 50 6131339
3. Mehdiyev Mehdi 259	ANB	mehdis_99@yahoo.com	(99412) 4931122
4. Gasymov Nizami	MOED	n_gasimov@yahoo.com	(994 12) 4929234
5. Talybov Mehman	MOF	m.talibiv@maliyye.com	(994) 50 3575654

Group III

1. Babayev Rahim	MOED	r_babayev@rambler.ru	(994) 50 2005225
2. Ismailov Fahri	ANB	fismaylov@rambler.ru , I_Fakhri@nba.az	
3. Manafov Parvin 332	MOF	parvin_mn@yahoo.com	(994 12) 4938103
4. Hasanov Mehdi 196	MOED	n_gasimov@yahoo.com	(994 12) 4924110
5. Iskenderov Elshad	MOF	elshad1661@mail.ru	

Thilak Ranaveera – World Bank, DECDG, senior economist,
e-mail: tranaveera@worldbank.org

Hasanova Sevinj – USAID PIPE Project, Tel: 11037 (Hotel “Russia”, Moscow),
e-mail: sevinj_h@yahoo.com

Workshop on RMSM-X Models for Macroeconomic and Fiscal Management

Training Agenda

Schedule (Tentative)

Monday, December 12

Session 1:	9.30am - 9.45am:	Introduction to the workshop
	9.45am – 10.45am:	Introduction to World Bank models
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	RMSM-X family of models
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2.00pm – 3.30pm:	Consistency Models and the Flow-of-Funds
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm - 5.00pm:	Practical aspects of Consistency
Models		Spreadsheet version of the models

Tuesday, December 13

Session 1:	9.30am - 10.45am:	Accounting foundations of
consistency		Models: National Accounts, Balance of
		payments accounts
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Fiscal accounts
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2pm - 3.30pm:	Monetary Sector Accounts
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm – 5.00pm:	External debt module and
		External adjustment (sustainability) issues
		Model Solutions and scenario exploration

Wednesday, December 14

Session 1:	9.30am - 10.45am:	Real sector projections BOP projections Government sector projections Monetary sector projections
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Hands-on-training with basic model
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2pm - 3.30pm:	Hands-on-training with basic model
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm – 5.00pm:	Hands-on-training with basic model

Thursday, December 15

Session 1:	9.30am - 10.45am:	Hands-on-training with basic model
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Hands-on-training with basic model
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2pm - 3.30pm:	Hands-on-training with basic model
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm – 5.00pm:	Hands-on-training with basic model

Friday, December 16

Session 1:	9.30am - 10.45am:	Poverty/MDG related Other WBank models IMMPA and PAMS, 123 CGE model
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Work on Azerbaijan Model
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2pm - 3.30pm:	Work on Azerbaijan Model
Session 4:	3.45pm – 5.00pm:	Work on Azerbaijan Model

Monday, December 19

Session 1:	9.30am - 10.45am:	Work on Azerbaijan Model
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Work on Azerbaijan Model
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2.00pm – 3.30pm:	Work on Azerbaijan Model
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm - 5.00pm:	Work on Azerbaijan Model

Tuesday, December 20

Session 1:	9.30am - 10.45am:	Work on Azerbaijan Model
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Work on Azerbaijan Model
	Break: 12.30pm – 2.00pm:	Lunch Break
Session 3:	2pm - 3.30pm:	Presentations of group work on Azerbaijan Model
	Break: 3.30pm – 3.45pm:	Coffee Break
Session 4:	3.45pm – 5.00pm:	Concluding session

Wednesday, December 21

Session 1:	9.30am - 10.45am:	Presentations of group work on Azerbaijan Model
	Break: 10.45am – 11.00am:	Coffee Break
Session 2:	11.00am – 12.30pm:	Presentations of group work on Azerbaijan Model
	Break: 12.30pm – 2.00pm:	Lunch Break

THE WORLD BANK IIFC/M.I.G.A.

OFFICEMEMORANDUM

DATE: January 5, 2006

FROM: Thilak Ranaweera

TO: Soong Sup Lee, MACTeamLeader

EXTENSION: 84537

SUBJECT: Workshop on Rmsm-x in Moscow, Dec 12-21, 2005

I conducted a workshop in Moscow during the period 12-21 December, on the World Bank's standard rmsm-x model for a group of 16 Azerbaijani officials. Based on the personal comments and reactions, I was given to understand that the training proved to be extremely useful to the participants.

In my personal opinion, the workshop was a big success. I wish to base my opinion on several aspects: the logistics, the course content, and the levels of participation. I have already mentioned above the difficult logistical problems that we encountered and the solutions taken. As far as the course content is concerned, I would say that the materials provided in Russian Language were quite satisfactory, considering the fact that we had absolutely no time to go through a series of discussions concerning the translation of difficult economic terminology.

As far as I know, this was the first time that DECDG had ever conducted the rmsm-x course in Russian Language. Thus, we had no prior material and no prior experience of doing the course in Russian Language, which meant that we had to start from scratch.

Fortunately, we had the English version of the materials we needed. It also meant that I had to virtually scramble to upgrade my knowledge about the modern day Russian terminology in the area of economics. Naturally, this took more time than I originally anticipated.

The course in Moscow was far more intensive and detailed than the course that we usually conduct in DC. Since most of the participants were new to modeling in general, I spent a great deal of time highlighting the intricacies of macroeconomics and different approaches to modeling. I went through the rmsm-x model explaining every single line of the spreadsheet model.

The questions raised by the participants demonstrated that they were getting to understand the model well. The participants raised an enormous number of complicated technical issues and the quality of these questions was very high. I am convinced that this was one of the best groups I have worked with during the last 10 years in similar training situations (both in DC and outside). Fortunately, I was

able to deal with all these issues and demonstrate to the participants the relative advantages and disadvantages of the rsm-x type of model. In some instances, I had to give the participants the theoretical and the practical backgrounds related to the issues they were raising. On one occasion, in relation to a question raised on the demand for money, I presented a brief description of the theoretical model and the empirical estimates for Azerbaijan that I did during the previous night.

At the end of the instructions part, the group was subdivided into 3 working groups and each constructed a model for Azerbaijan based on the building blocks that I suggested and the participants agreed on. The workshop concluded with presentations by each group, which were subjected to evaluation by other groups and by me. The quality of Presentations was quite high and the groups were able clearly identify the issues that they need to concentrate on in order to build a more detailed and concrete model for Azerbaijan.

I am also attaching separate files on the workshop schedule and the list of participants.

Sh:sc
04/24/06

Attachment 8.

Briefing Note to Geoffrey Minott, CTO, USAID Economic Policy Advisor, on changes in the current PIPP Work Plan.

November 19, 2005

Dear Geoff,

I understand you have enquired about changes in the current PIPP Work Plan from the earlier draft.

The very preliminary draft of the PIPP Tasks Matrix was distributed on June 6th, 2005 only two-weeks after the completion of the Diagnostic Review, to you, Catherine and the PIPP staff. The tasks and their timings shown in the June 6th Matrix were kept unchanged in the first draft of the complete PIPP Work Plan distributed on June 27th, 2005. We all agreed that the WP would be finalized after it is discussed with all stakeholders, particularly in light of comments we expected to receive at or after the Opening Ceremony of PIPP, which was originally planned for late July but had to be postponed to August 26th, 2005.

As you know, we have extensively discussed the WP with the MOED, WB and USAID staff, including several visiting staff from the HQs of the latter two institutions. We have also received comments from the various stakeholders at and after the presentation of our WP at the PIPP Opening Ceremony. Finally, the PIPP staff has made a thorough assessment of timing of the Tasks shown in the preliminary draft of June 6th. As a result of all these consultations, the final WP took shape by early October with only slight changes, both in tasks and their timings, from the June 6th draft. The changes in tasks were only one addition and one revision, made per your comments, to incorporate:

- “Helping MOED with recruitment of new personnel” as Task 20 / Output (c); and
- Correction of the PIP years from 2005-08 to 2006-09 in Task 3.c.

The changes in timing of the tasks are shown in the attached PIPP Tasks Matrix. The main reason for changes was the need to improve the sequencing of tasks, which in turn was due essentially to poor sequencing in the original draft and, to a lesser degree, to the advancement of the 2006 Budget calendar by three months. This is further explained below by tasks:

- **Task/Output 4.a&b** were shifted by one quarter to Q4/05 and Q1/06, respectively because of the need to first undertake Tasks 1, 2 and 3 in Q3/05 and Q4/05.
- **Both Task 10.d and 11.d** were shifted from Q4/05 to Q2/06 because they require the completion of other outputs of the same tasks scheduled for Q3/05 thru Q1/06.
- **Tasks 19; 20; 23; and 24** were shifted by one quarter to Q1/06 or Q2/06 because they should be preceded by the Component A and B tasks on the national and sectoral objectives and priorities, the macro and sector framework, and the sector development programs, which are scheduled for Q3/05 and Q4/05.

**AZERBAIJAN
USAID PUBLIC INVESTMENT POLICY PROJECT**

**Meetings with IFIs and Donor Countries' Representatives and
Consultants in Q4/2005**

October 17-21, 2005

- Meeting was held with Mrs. Jane Drapkin, BP Sustainable Development Advisor, on the governance issues in Azerbaijan.
- Meeting was held with the visiting USAID consultants, Messrs. Charles Johnson and Michael Schaeffer, to brief them on PIPP and discuss their work on the anti-corruption project
- Meeting was held with the visiting AB consultant Mr. David Pearce to brief him on PIPP and discuss his concern on governance issues in Azerbaijan.

October 24-28, 2005

- Meeting was held at the PIP Project with Mrs. Linda Decker, the US Treasury Resident Budget Advisor. The information was exchanged on the PIP Project activity and the US Treasury Budget Advisor's activity plans. Mrs. Decker was briefed on problems faced by PIPP in the work with MOF, the weaknesses in the implementation of BSL, budget classification and MTBF.

October 31- November 2, 2005

- Meeting was held at the USAID with World Bank on recent PIPP developments and coordination of efforts on training issues and technical activities

November 7-11, 2005

- The SSDP on tourism and environment was revised by the Mr. Iskarpatyoti, STTS and reviewed by the PIP project staff
- Meeting was held with Mr. Paul Carlson, visiting USAID expert from SME support project, on PIPP activity, SME problems with the access to the credits (high price of credit, problems with collaterals), budgetary support for SME development

November 21-28, 2005

- Meetings were held in the PIPP office with Mr. Paul Kriss, World Bank, and Mr. Jim Arthur, ADB, to discuss local municipality participation in infrastructure development programs as well as public awareness and participation in government decision-making over public capital investments. A Briefing Note on the meeting was prepared
- Meeting was held with Mr. McNeil Watkins, COP of PA Consulting to discuss the request for the tariff study from MOED. It appeared that PA Consulting has

been conducting a profound tariff study for every generating unit and are finalizing their report as well as Tariff Optimization Model for the electric power sector.

- Meeting was held in the PIP project office with Ms. Susan B. Cornnel on arrangement of English language training for MOED staff

November 28 – December 2, 2005

- Meeting was held with Ms. Linda Decker, US Treasury Advisor for the MoF, Government finance system in Azerbaijan, its peculiarities, including issues of fiscal decentralization, PIP, Budget System Law were discussed at the meeting . It was agreed to hold regular monthly meetings to coordinate both projects activities in regard of the MoF and also to hold joint discussions with IMF and TIMS project on budget classification.
- Meeting was held in the PIPP office with Mr. Basil Zavoiko, IMF Resident Representative. The major PIPP tasks and recent activities have been discussed and HPPC note has been provided to IMF at the meeting;

December 5-9, 2005

- Meeting was held in the PIPP office with a new ADB TA team (Prof. John Weeks and Prof. Ali Bayar). The potential cooperation between PIPP and ADB's Economic Modelling Project to be located at MOED/CER was discussed at the meeting. Brief Note on the meeting was prepared.
- Meeting held in the Ministry of Transport with Mr. Marc Graille, Director of the ADB Transport Strategy Development Project run by Scott Wilson Consulting. Both sides discussed the ADB and the PIP Projects' SOW and existing challenges at the meeting and it was agreed on further cooperation.
- Meeting was held in the PIPP office with Mr. James Goggin, USAID Country Coordinator on the PIP Project workshop scheduled on December 22, 2005

December 12-19, 2005

- Meeting was held with the visiting WB Division Chief and S. Economist in charge of the Azerbaijan program on the project developments and forthcoming high-level workshop
- Meeting was held with the visiting IMF economist, Mr. Selim Cakir, at the PIPP Office.

December 26, 2005 -January 6, 2006

- A meeting was held with the US Treasury Advisor to MOF, accompanied by PIPP CTO, on cross-linkages and coordination between the two projects.

