



USAID
FROM THE AMERICAN PEOPLE

PUBLIC INVESTMENT POLICY PROJECT

Quarterly Performance Report

Period: October 1 – December 31, 2006

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ABBREVIATIONS

BSL	Budget System Law
BTO	Back-to-Office Report
CER	Center of Economic Reforms
CSO	Civil Society Organization
CTO	Cognizant Technical Officer
DAI	Development Alternatives Inc.
EBRD	European Bank for Reconstruction and Development
F&IR	Functional and Institutional Review
FPM	Financial Programming Model
GOAR	Government of Azerbaijan Republic
HPPC	High Policy Planning Council
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LM	Line Ministry
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
MOH	Ministry of Health
MTEF	Medium-Term Expenditure Framework
MTMF	Medium-Term Macroeconomic Framework
NBA	National Bank of Azerbaijan
PIP	Public Investment Program
PIPP	Public Investment Policy and Program
PIP-Project	Public Investment Policy Project (of DAI/USAID)
PO	President's Office
Q4/06	Quarter 4, 2006
QPR	Quarterly Performance Report
SOFAZ	State Oil Fund of Azerbaijan
SEDF	Social-Economic Development Forecasts (of MOED)
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
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank
WLI	World Learning Inc.
WP	Work Plan

Q4/06 PROGRESS REPORT SUMMARY

During Q4/06, the DAI/PIP-Project staff prepared the draft PIPP Manual (comprising of 4 chapters and 13 annexes), a document unique in its characteristics in Azerbaijan, that proposes a methodology for public investments policy formulation and public investments programming. Once accepted and approved by GOAR, it will become an indispensable reference book for public service managers and practitioners involved in budget expenditures decision-making and execution, especially in relation to managing public investment projects. In addition, per MOED request, the PIP-Project staff drafted a Presidential Decree on measures for acceleration of the country's socioeconomic development which called for establishing the necessary economic, budget and planning frameworks as described in the draft PIPP Manual. Finally, responding to the MOED's intention to describe concretely the role it plays in the PIPP process, the PIP-Project staff prepared a preliminary draft 'PIPP Regulations.' The documents will be further discussed with MOF and other institutions (the Cabinet of Ministers, the President's Office) as well as international donor community, and particularly, with the World Bank experts.

In November-December 2006 the staff of the DAI/PIP-Project, in cooperation with the CER instructors, successfully conducted Rounds 3-4 of the Training Program in Integrated Project (Cost-Benefit) Analysis. The DAI/PIP-Project staff, in cooperation with the World Learning International, pursued organization of a technical study tour for high-level GOAR officials to Norway to learn of its successful economic growth and utilization of windfall revenues from oil production for investment expenditures.

During the reporting period a series of technical meetings was held with USAID and the World Bank experts in issues related to efficacy of public investments and enforcement measures needed to bring discipline to the process of the Public Investment Program preparation.

Finally, in mid-December 2006 a ceremony was held at CER to commemorate donation of the computer and office equipment to CER in support for its institutional capacity-building as an economics research and training center.

This Quarterly Performance Report for Q4/06 presents an overview of developments in the PIP-Project/WP tasks scheduled for that period.

1. STATUS OF PROGRESS IN WP TASKS IMPLEMENTATION SCHEDULED FOR Q4/06 BY COMPONENTS

Component A:

Long-term national and sector development and investment policy planning

Financial Programming Model and National Development Framework

According to the BSL, the MOED is responsible for forecasting the macroeconomic parameters of the Azerbaijan economy. The economic policy and the budgeting process rely on and base their directions in accordance with the forecasted information by the MOED. The budget cycle begins at the end of January when the COM instructs in a circular the MOED to provide to the MOF by March 1 preliminary medium-term Social-Economic Development Forecasts. The same circular includes tasks for other central economic institutions involved in economic and fiscal planning issues.

The PIP-Project has been advocating together with other IFIs that the Social-Economic Development Forecasts for Azerbaijan should be prepared in a more quantitatively robust manner. A properly augmented medium-term SEDF will be akin to a medium-term macroeconomic framework. The current medium-term SEDF do not assess the effects on the whole economy of economic sectors other than the real sector. In such a biased approach to handling economic information, there is unquestioningly much inconsistency in the analyses which does not consider the proper inter-relationships of major sectors of the Azerbaijan economy.

In an effort to initiate the draft 2008 budget based on more robust forecasts of macroeconomic indicators, the MOED, the MOF and the NBA had started negotiations in Q2/06 to arrange for sharing information and working cooperatively to build an economic model based on IMF's Financial Programming Model. Throughout 2006, the PIP-Project together with the WB was intimately instrumental in facilitating this cooperation. In Q4/06, the PIP-Project tried to assist directly in this undertaking on the part of the MOED. The PIP-Project contacted internationally well-known PFM builders and sought to contract them to help the GOAR institutions. In the end, the WB was able to provide an economist to help the GOAR to build the FPM in early 2007 leading up to the March 1 deadline of issuing the draft *SEDF 2008-11*. The FPM building work will initially use staff and resources from all three institutions but is expected to be based and guided ultimately at the MOED.

The Functional and Institutional Review of the Ministry of Economic Development (MOED)

In Q3-2006, the MOED had requested the PIP-Project to help it to undertake a functional and institutional review of the ministry. The MOED appeared to anticipate the approval of its new draft Statute by the President and to prepare for identification of the underlying causes of its institutional weaknesses and options for dealing with them. The review was conducted during September. The preliminary report was submitted to MOED in October. The circulation of the draft report was restricted to the minister and the three deputy ministers.

The initial reaction to the report from the limited circulation in the MOED was positive. There was solid agreement with the observations and recommendations. However, during Q4, the

MOED would not discuss and act further on the findings of the review until the draft MOED Statute was approved by the GOAR. The Statute was approved on December 28, 2006.¹

According to the new Statute, the MOED adopts two new 'service' organizations, which are not part of its central organization: State Antimonopoly Service and Consumer Market Supervision Service. In the meantime, various research and technical institutes one of which was the Center of Economic Reforms (CER) were consolidated into the Scientific-Research Institute of Economic Reforms (SRIER). The MOED management will be working in early Q1-2007 designing the new organizational structure of the ministry to serve the new Statute.

Historically, the MOED (and other predecessor institutions which have since become part of it) has had a very central place in the organizational framework of GOAR, with responsibilities for policy-making, planning work, and inter-agency coordination for management of economic growth. In the transitional period, though some of the core functions had weakened, the MOED remains a strong determinant of economic planning and policy-making in Azerbaijan. Within this context, the new Statute of the MOED once again grants it wide range of mandates. At the same time, the Statute once again appears to have assembled a large number of functions but without clearly systemizing them as well as many others whose benefit in a market-orienting economy may be questionable. Therefore, under these circumstances the design of the new organizational structure and staff responsibilities in the MOED will have great bearing on the supportive influence of a modern planning ministry towards a less frictional operation of Azerbaijan's economy. The recommendations of the Functional and Institutional Review report are expected to assist the MOED in this undertaking. A more thorough look and assessment of the MOED Statute and the MOED organizational restructuring will be made in the coming QPRs.

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

In the week of October 30, the PIP-Project staff (Hadji Husseynov) and the primary author (local STTA, Mr. Ilgar Mammadov) of the Technical Note "Participatory Processes in Public Investments in Azerbaijan" (Attachment 3, QPR Q2/06) report made a slide presentation on the summary recommendations of the Note to the Ministry of Environment and Natural Resources (MoENR). Both sides discussed the existing participatory processes in Azerbaijan and current practices of MoENR.

The PIP-Project staff will continue advocacy for civic involvement in the government work and for the government accountability for results. Because the PIP-Project is concerned with the investment expenditures efficiency, it is important to cooperate with the MOF and the MOED and encourage public hearings and other educational processes to bring the civil society organizations into the picture of the development strategies, plans, and priorities.

Component B:

Evolution of the Public Sector Capital Budget Formulation as a bridge within an MTEF between development planning (SPPRS and RDP) and the Consolidated State Budget

¹ President's Decree #504, December 28, 2006.

Develop a Manual for Public Investment Policy and Project Development (PIPP Manual)

During Q4/06, the PIP-Project staff, led by the Project COP, finalized the draft PIPP Manual (**Annex 1**). The idea of the Manual was conceived to be a modular product where the ongoing outputs of the PIP-Project would be incorporated over the duration of the Project into an expansive reference guidebook. The Technical Notes and other outputs from presentations and workshops were to create the sequential stages of public investment policy determination and project cycle management. So, as the Project matured, the Manual became complete. The timing of producing the draft Manual was pushed somewhat forward by the MOED's request to put in place definite institutional responsibilities and process procedures by end-2006. The PIP-Project, led by COP, produced a draft PIPP Manual, which covers only the processes up to and including the approval of Public Investment Program by GOAR. The draft Manual was submitted to MOED for formal review and legal opinion.

Draft President of Azerbaijan Decree "On additional actions for acceleration of the country's socio-economic development"

Following the request from MOED, the PIP-Project staff drafted a Presidential Decree on measures for acceleration of the country's socioeconomic development which calls for establishing the necessary economic, budgeting and planning frameworks. The draft decree was submitted to MOED. The draft Decree will be submitted to MOF and NBA, for review, comments, and legal opinions in Q1/07 following further consultations with the World Bank and other donors. The draft document is provided in **Annex 2**.

Draft PIPP Regulations

There are as yet no officially adopted procedures for the PIP preparation process. The BSL is deafeningly silent on capital budgeting process. Since the Budget System Law approval, the MOED in 2004 has proposed new PIP preparation regulations. The MOED 'Draft PIP Regulations' is currently approved only by the MOF and the Ministry of Justice (but not yet by the Cabinet of Ministers) is a generic document lacking specificity. The draft PIPP Manual and the draft Presidential Decree, which the PIP-Project produced, offer a framework for the legal basis and a broad methodological reference for Public Investment Policy and Programming in Azerbaijan. However, the sequence of planning and implementing investment projects, and assignment of responsibilities to various state institutions (PO, CoM, MOED, MOF, NBA, sector ministries, and Milli Mejlis) in the process of compilation and execution investment projects in the annual and rolling medium-term PIPs are required to be clearly defined and, in due course, implemented. To make the implementation issues and assigned authorizations explicit the MOED has been requesting to draft a set of regulations to describe tasks and roles. The draft PIPP Manual, though conceptually quite thorough, was not as operationally specific as the MOED envisioned the 'regulations' needed to be.

In late October, the Draft PIP Regulations, which the MOED had sent to the COM in 2004, was returned to the MOED for final comments. The MOED saw this request from the COM as an opportunity to re-present an updated set of 'Regulations' in light of the ongoing PIP-Project recommendations and other institutional developments in the GOAR that had since then occurred. The PIP-Project LTTA (Samim Cilem) was tasked to work on a draft document. He located to the MOED premises to benefit from consultations with the counterparts on this and other PIP related MOED tasks. The drafting of the regulations will continue into Q1-07. The

interim document on draft PIPP Regulations will be provided to the MOED for comments in early Q1-07. The most recent draft document is enclosed as **Annex 3**.

Help enhance the capacity of the sector divisions of MOED/DMAF in preparation of the PIP Call Circular, review and evaluate the Line Agencies' capital spending programs and investment projects.

Review of responses to Call Circular for PIP 2007-10

There are as yet no officially adopted procedures for the PIP preparation process. Since the Budget System Law approval, the MOED in 2004 has proposed new PIP preparation regulations. The Draft PIP Regulations currently approved by the MOF and the Ministry of Justice (but not yet by the Cabinet of Ministers) is a "compromise" document lacking specificity. According to the draft Regulations, the MOED sends out the annual PIP call circular by March 15. The responses are due at the MOED by April 1.

Early in 2006, the PIP-Project designed new PIP call circular forms for the MOED. The information collated through these forms was to be the foundation for an improved process of Public Investment Program preparation and management by the MOED. The sample forms of the new Call Circular can be seen as Attachment 7 in QPR Q2-2006. In summary, there are 4 Forms. Form 1 requests description of sectors, objectives, and sector development plans which justify the investment project requests within public investment policy. Form 2 asks specific information on individual projects. Form 3 asks for actual capital budget expenditures (economic expenditure classification items numbers 282200 and 311000) from the last 5 years and estimated capital budget expenditures for the next PIP period, which are not accounted for in PIP spending. Form 4 asks for project financial information distributed over the next PIP period. The MOED allowed in Form 4 for reporting of cost calculations indexed to 1991 costs despite strong recommendations against such valuations by the PIP-Project. The draft PIPP Manual excludes the use of this practice.

During the period when the PIP call circular responses were arriving, the PIP-Project staff had helped the staff of the MOED PIP Division in answering queries from line ministries regarding the call circular forms. On the whole, according to the PIP Division the queries appeared to be few and not difficult. Following the draft PIP preparation and consolidated budget approval, the PIP-Project decided to look at a number of call circular responses to assess the need for any changes in the call circular forms during the new PIP preparation cycle. The PIP-Project briefly reviewed the responses from transportation ministry, communication and IT ministry, labor and social protection ministry, agriculture ministry, AzerSu Corporation, and Khanlar rayon.

From the brief sampling exercise of the call circular responses it is evident that a comprehensive information base for evaluating and prioritization of projects for draft PIP 2007-10 towards a timely and coherent PIP document had not been possible. First of all, the two-week turn around for the responses stipulated in the Draft PIP Regulations was unrealistic. One may surmise that the schedule presented in the Draft PIP Regulations was anticipating that the MOED would receive information quickly in order to submit the preliminary estimates of draft PIP by April 15 to the COM as the Budget System Law and Budget System Regulations demand. But, instead of collating information from responses soon after April 1, the MOED was

still handling responses from budget agencies in June, July, and as late as August 28.² All of the reviewed agencies omitted to send one or more of the call circular Forms with the exception of Khanlar rayon. Many of the responses were in hard copy format, which involved data entry work for the MOED staff. Of the reviewed agencies the transportation ministry and the Khanlar rayon provided electronic versions of the responses.

Of all the agencies, the transportation ministry and Khanlar rayon came closest in responding to the intention of the PIP call circular by filling the sections of Form 2 which have project specific information and Form 1 which describes sectoral and national objectives for motivating public investment projects. However, the contents of Form 1 were not robust and only commonly iterated all-encompassing economic development policy directions. Below is a table of the review's summary findings.

Table 1. Call circular responses from selected agencies to draft PIP 2007-10.

AGENCY	Date Rec'd at MOED	Form 1	Form 2	Form 3	Form 4	Other Forms ⁴
Agriculture ministry	Aug. 28	-	-	-	Y	Y
Transportation ministry	n.a.	Y	Y	-	-	-
Labor/Social Protection min.	Jun. 14	-	-	Y ¹	Y	Y
Comm/IT ministry ²	May 17	Y	-	Y	-	Y
AzerSu corp. ³	Aug. 22	-	-	-	-	Y
Khanlar rayon	n.a.	Y	Y	Y ¹	Y	-

1/ Not accurately filled.

2/ CIT claimed that because the CIT projects were not funded by the budget sources it was not under obligation to provide the information in Forms 2 and 4. It cited Presidential Decree #1055, Oct. 21, 2005, which authorized the COM to decide on CIT sector investment projects.

3/ AzerSu provided one large table, which emulates the information requested in Forms 2.4 and 2.5.

4/ These are forms that the agencies provided instead of or in addition to the required call circular forms.

Observations regarding the responses to PIP call circulars included:

- Responses without Forms 1 and 2 could not express any policy justification for the financing requests. Responses including Forms 1 and 2 made general references to State economic development programs.
- Most projects were characterized as 'urgent' when their importance had to be qualified. In the absence of evaluation criteria for prioritization, it is difficult to say how much the characterizations have merit.
- Most project implementation periods fit into the next medium-term PIP period. It was not clear whether this planning was deliberate or coincidental. In transportation, there were numerous projects implementations which lasted beyond 2010.
- Cost calculations were based on 1991 cost pricing indexes. These calculations are standard practice in project preparation.
- In transportation, there were memorandum items on expected costs of land purchases, which were apart from estimated total project costs.
- There was not a numbering system that identified clearly any of the projects in any agency.

² These delays had severely interfered with drafting process of the PIP 2007-10 document for analysis and explanations of investment project selection. See Section 2 of this report.

- Presidential Decrees or COM Orders were used as authorizations and justifications for some projects (AzerSu regional projects, CIT ministry).
- The electronic version responses were more completely and qualitatively better prepared than the hard copy responses.
- There were various other inconsistencies (such as project implementation period not coinciding with financing requests) in the responses.

Component C:

Help MOED and MOF to jointly develop a set of “project appraisal, preparation and negotiations procedures”, which will emphasize integration of social, economic, financial and engineering analysis based on market economy and modern engineering norms rather than old Soviet practices.

Economic valuation of public investment projects

The PIP-Project staff continues to teach and familiarize the GOAR management authorities and technical staff with methodology of cost-benefit analysis and with concepts of integration of social, financial, engineering, social impact, distributional and other analyses. These are ambitious but also basic building blocks in identifying proper public investment projects. It is also fundamental for any expected impact from any public investment policy. Putting this knowledge into practice, in the long-term, will be one of the basic elements in preparing and justifying better PIP-Projects that yield higher economic and social returns.

Recognizing the importance of rigid cost-benefit, cost-efficiency and cost-effectiveness analysis in the evaluation of PIP, a World Bank mission, led by Christos Kostopoulos and technically supported by internationally recognized consultants Dr. Glenn Jenkins and Dr. Mustafa Besim consulted extensively with the PIP-Project staff during the week of November 30. Dr. Jenkins, with worldwide experience in project appraisal and management delivered a presentation for the Deputy Ministers of central economic ministries of Azerbaijan. The presentation encouraged to focus on the following aspects of good PIPP management:

- a) strengthen project appraisal methodologies;
- b) strengthen laws and regulations with respect to project appraisal and PIP composition; and
- c) implement sector capacity building efforts.

The WB consultants left with the PIP-Project software and worksheets involving project preparation and evaluation from other countries. The PIP-Project staff got familiarized with this software on application of specific commodity conversion factors (SCCF) prepared for tradable and non-tradable goods and services in South Africa. The PIP-Project and the World Bank are in agreement that correct economic valuation of investment projects needs to be grounded on reliable data on the Country's National Parameters, SCCFs and realistic market-based (as opposed to 1991-indexing used in Azerbaijan) cost system. Still there are differing visions on the part of the PIP-Project staff and that of the World Bank on the methods of assistance to GOAR in this respect. The World Bank consultants suggest preparing SCCFs for as many as 25,000 goods and services whereas the PIP-Project suggests, for simplicity and initial broad impact, to use SCCFs for major categories of goods and services and, with time in the future and GOAR intentions, elaborate on a list of more detailed items. The PIP-Project staff also advocates for the host country to have as much opportunity of institutional capacity-building as

possible in these exercises. For this purpose, in alignment with the Project Work Plan, coaching CER experts in applying various economic methodologies (in this context – the SCCF, cost structure, National Parameters) and making the experts to conduct the in-house research and work (as opposed to consultant-developed work abroad away from the counterparts) should be built into the cooperation. An agreement was reached to explore the opportunities further and discuss mechanisms that will fulfill the needs of the host government institutions. The PIP-Project staff developed a draft TOR for the shadow (economic) price work, which is enclosed in the Annex 4.

Help improve the selected line ministries' capacity, without additional resources, for effective monitoring and evaluation of the public investment programs and projects in terms of their socio-economic impact.

Enrolling new sectors for the PIP-Project work

In Q4/06 the PIP-Project staff conducted introductory meetings with new sectoral ministries. In addition to the five sectors/ministries covered in 2006 (industry and energy; transportation; education; tourism; and environment) the PIP-Project expanded its counterparts by involving the following sectors/ministries:

- a) Communication and IT;
- b) Agriculture;
- c) Irrigation and Water Management; and
- d) Health.

With this objective in mind, the PIP-Project staff conducted meetings with the two Deputies to the Chairman of the Agency for Irrigation and Water Resources (Messrs. Mammad-sadiq Guliyev, Rafik Aslanov) and the Deputy Minister of the Ministry of Agriculture (Mr. Bakhran Aliyev) and provided extensive briefing on the PIP-Project objectives, TA program and specific activities. An extremely productive meeting was also held with the Department Head for Finance and Economic Analysis (Rashad Nabiyev) who specifically requested TA in improving their sector strategic development plan. A similar request arrived later from the Agency for Irrigation and Water Resources as well.

Despite many efforts, the PIP-Project did not succeed meeting with officials from the Ministry of Health. The MOH officials refrained from official meetings without a letter to the Minister explaining the purpose of the meetings and expected results from it. This experience brought up a serious consideration of the necessary pillars for TA. The Project staff was advised to seek signing a formal Memorandum on Cooperation because the presence of this document will provide legal grounds for the counterparts to cooperate with the Project on topics of investment project planning and management. The PIP-Project DCOP drafted an Memorandum of Understanding for joint activities with the sector ministries which listed core topics for 2007: (a) preparation and/or improving the sector medium-term development plans based on national and sector-specific operational issues; (b) preparation of internal procedures for investment project preparation, review and appraisal; (c) development of sector submission (responses) to the PIP Call Circular; (d) analysis of implication of new capital works on sector recurring expenditures; (e) preparation of pro forma case studies for educational and guidance purposes; (f) sector experts participation in the multi-week Training Program on Integrated Project (Cost-Benefit) Analysis; and (g) informational transparency, public outreach efforts, sector development progress hearings, and information sharing. The MOU could be a document to bring discipline into mutually conducted activities. In another development that delayed the interaction further

between the PIP-Project and LMs, the PIP-Project was advised that a higher GOAR authority (e.g., the Cabinet of Ministries) needs to enter in an all-encompassing Memorandum of Understanding on Cooperation on PIP issues prior to signing a MOUs with sector ministries.

Component D:

Training program and building of local training capacity

Multi-Week Training Program in Integrated Project Analysis

The PIP-Project-led Training Program was launched first in February 2006 and to date had involved a total of 171 senior executives and mid-level technical staff. They were trained in 4 rounds of multi-week sessions on Integrated Project (Cost-Benefit) Analysis. Each round of the Training Program consisted of two-day workshops for the mid-level management on topics of macroeconomic and sector policy issues, sector development and budget planning, and PIPP-related topics. The formal workshops were then followed by 10-12 days-long formal training for the sector technical staff from the central and sector ministries – in issues related to sector development planning, project cycle management, integrated project (cost-benefit) analysis and completion of the newly approved format of the PIP Call Circular. To this end, the PIP-Project specialists trained 74 executives and 97 practitioners, specifically:

5 employees from the Cabinet of Ministers,
49 from the Ministry of Economic Development,
19 from the Ministry of Finance,
14 from the Ministry of Industry and Energy,
13 from the Ministry of Transportation,
8 from the Ministry of Education,
8 from the Ministry of Health,
18 from the Ministry of Ecology and Natural Resources,
9 from the Ministry of Agriculture,
9 from the Ministry of Communication and Information Technologies,
9 from the Ministry of Culture and Tourism, and
10 from the Irrigation and Water Supply Joint-Stock Company.

All trainees were awarded Certificates of Course Completion.

The USAID-supported PIP-Project gives technical assistance to the Government of Azerbaijan Republic to develop its capacity in long-term policy planning and sector development, capital budget formulation, and investment project preparation and appraisal. The technical assistance is of a paramount importance for development of new types of technical skills needed to successfully manage revenues from oil and gas production. Technically, this calls for development of a sound public investment policy and implement public investment projects that yield highest economic and social returns for the Azerbaijan population. To plan, prioritize and appraise investment projects better, there is also a need to develop the new methodology for public investment project preparation. One of the USAID-PIP-Project objectives is to establish a permanent Training Unit in Azerbaijan and to institutionalize capacity of the GOAR in training its project analysis staff in modern methods of Integrated Project (Cost-Benefit) Analysis. This will ensure training of the necessary cadre of civil service employees capable to conduct complex analysis of public investment projects.

Rounds 3 and 4 of the formal multi-week Training Program on Integrated Project (Cost-Benefit) Analysis was successfully completed in December 20, 2006. The summary of observations as well as recommendations is included as **Annex 8**.

Ribbon Cutting Ceremony at CER

To significantly contribute to the institutional capacity building of the Government of Azerbaijan, USAID has furnished the Center of Economic Reforms (CER), the research and support institution of the Ministry of Economic Development, with the state-of-art computer hardware; software and visual-aid equipment. CER is the partner organization to the PIP-Project in organizing and conducting of the specialized training courses in Integrated Project (Cost-Benefit) Analysis, and will serve further as the sustainable Training Unit. The computer equipment will enhance the CER's capacity in performing its training functions and conducting its economics research work effectively and efficiently. The Ribbon-Cutting Ceremony for the transfer of the computer equipment (in equivalent of USD 16,000) was held on December 19, 2006 in the premises of the CER. The ceremony was attended by Scott Taylor, USAID Country Coordinator; Mete Durdag, PIP-Project's COP; Sevinj Hasanova, Deputy Minister of Economic Development; Namiq Tagiyev, CER Director, the training program participants, experts, and the mass media representatives. The informational documents and briefing papers in reference to the event are enclosed in the **Annex 13**.

Educational Study Tour to Norway

The PIP-Project staff along with the USAID and the WLI pursued the idea of a study tour to Norway for top-level GOAR delegation to visit the Norwegian central economic ministries and to learn about public policies and investment expenditure procedures for effective economic planning and efficient public expenditure management. The purpose of the study tour is to demonstrate the top-level officials from the President's Office, the Cabinet of Ministers, the Ministry of Economic Development, the Ministry of Finance, the National Bank of Azerbaijan, and the State Oil Fund the successes Norway has achieved from effective and efficient macroeconomic and sectoral development framework, linking the development agenda to the fiscal envelope, and results' framework when planning and managing their public finances.

The initiative for the study tour came from the MOED in the course of discussions of training needs and planning of training activities for 2007. The TOR for the technical study tour to Norway currently planned for March 2007 is included as **Annex 6**.

The PIP-Project, in coordination with the WLI, may be able to finance an additional traineeship program for technical staff in corresponding Government institutions in Turkey provided that the Embassy of Norway assists with the in-country logistics of the Norway Study Tour. With this possibility in mind, the PIP-Project staff prepared a TOR for the Study Tour in Turkey (Part II). The TOR is included as **Annex 7**.

English Language Training

During the reporting period the English language training continued for the GOAR counterparts in accordance with the approved schedule.

Updating of e-library and of MOED/PIP-Project website

The Project updated and catalogued materials for the e-library. The materials currently consist of economics, finance, investments, public expenditures management, project management, and sectors. There are IFI reports on countries and specific issues such as PRSP, participation and anti-corruption. The PIP-Project has transferred copies of these to the MOED in CD format. The MOED is deciding where and how to make the material available to its staff. The PIP-Project is maintaining the hardcopy library of the MOED in the PIP-Project office. The Project has identified a potential place to locate physically the library materials at the MOED. But for now, the MOED continues to prefer not to assume the management of the hardcopy library.

Preparation of the new Work Plan and the PIPP Performance Monitoring Plan

Responding to the contract obligations the PIP-Project staff prepared and submitted to USAID the new Work Plan covering the period of Q4/06-Q4/07 for review and approval (**Annex 9**). Separately, for internal project management purposes, the PIP-Project staff prepared DAI/PIPP Performance Monitoring Plan 2006-07 (**Annex 10**) and the PIP Activity-related Results Indicators for the next four year period (**Annex 11**).

2. COOPERATION WITH THE GOAR COUNTERPART ORGANIZATIONS

The PIP-Project worked with MOED in designing a format for more robust description and analysis of public investments for the years 2007-2010. A template for the textual content of the *PIP 2007-2010* document was done, which included descriptions of the past and future medium-term macroeconomic environment and description of GOAR socio-economic plans to guide the medium-term PIP-Projects. Tables for medium-term macroeconomic parameters, the breakdown of investment expenditures into sectors, years and sources and comparisons of trends in expenditures with previous years were made. The MOED finalized the document and included it in the draft 2007 Budget submission to the COM.

The PIP-Project staff cooperated with the key counterparts in MOED in reviewing and receiving feedback from the MOED Functional and Institutional Review, draft PIPP Manual and draft PIPP Regulations. The PIP-Project staff member (Samim Cilem) conducted daily consultations with the MOED officials of Ms. Sevinj Hasanova, Messrs. Shahin Sadigov and Natiq Pashayev, and others in reference to the draft PIPP Regulations and the review of responses to the Call Circular for draft PIP 2007-10.

3. COORDINATION WITH DONORS, IFIs, USAID and its PARTNERS

In Q4/2006 the PIP-Project staff enjoyed cooperation with international donor organizations, particularly with WB on issues related to the public investment planning and project management. Extensive meetings continued with Mr. Christos Kostopoulos, WB Senior Country Economist and WB Consultants Messrs. Glenn Jenkins and Mustafa Besim.

Responding to the requests from the MOED and the MOF for PIPP-related international study tours, the Project COP and Training Coordinator worked with TIKA (Turkish Economic Development Agency) in determining programs of the Study Tours to Turkey.

The PIP-Project discussed with the US Treasury Department advisor to the MOF the possibilities of aligning of the contents and synchronization of the procedures in the draft Budget

Manual prepared by the US Treasury Department advisor with the contents and the procedures in the draft PIPP Manual prepared by the PIP-Project for the MOED. It turned out, however, that the draft Budget Manual though it was commented on by the WB is under embargo to other institutions by the MOF. This is a potentially high-value cooperative work which may need to be re-addressed as the upcoming initiatives by the IFIs review and augment the medium-term budgeting practices.

4. ADMINISTRATIVE TASKS

New Project COP

In December 2006 the new PIP-Project COP was selected – Dr. Janusz Szyrmer – who is scheduled to arrive in Baku in mid-January to lead the PIP-Project team toward implementation of contract objectives.

IT Servers Procurement for MOED

Early December 2006, following USAID authorization, the PIP-Project staff conducted full and open competition for the procurement of two computer servers for the MOED. The delivery of the servers is scheduled for late January 2007.

STTA needs in 2007

The PIP-Project prepared a new Work Plan for FY2007 activities. In light of the contract obligations and sector-specific specialization required, the PIP-Project developed a tentative plan for the mobilization of the short-term technical assistance (referred to in the **Annex 12**).

5. CONCLUSIONS AND IMPLEMENTATION ISSUES

Twenty months of efforts by the PIP-Project staff in PIPP-related capacity building activities show several observations and conclusions:

- The main objective of the contract signed between USAID and DAI is to work in cooperation with the counterparts in the GOAR to help build up institutional and technical capacities for sound public investment policy and program formulation. With an admirable insight into the issues, the contract sees the realization of this objective as dependent on the development of GOAR capacity for: (a) national and sectoral development planning, (b) capital budgeting, and (c) project appraisal and implementation.
- The main finding on the part of the PIP-Project, which also is consistent with the opinions expressed by the international experts from other donor community organizations, is that success in the PIPP reform will be dependent upon and synchronized with efficient reforms in the areas of: (1) macroeconomic planning; (2) sector planning and development; (3) public expenditure reform; (4) administrative and civil service reform, others. The PIPP reforms mirror the requirements in other public finance governance issues and call specifically for rationalizing the use of temporary revenues from oil and gas production to achieve socio-economic goals (nominally articulated in the State Development Program for Poverty Reduction and Sustainable Development, and the State Program for Socio-Economic Development of the Regions).

- Azerbaijan's Public Investment Program requires substantial legal, methodological and administrative strengthening in order to achieve the nation's overarching goals in building a competitive economy, alleviate poverty and achieve sustained higher standards of living. The MOED, the PIP-Project's primary counterpart, needs to be empowered to direct and enforce procedures for effective project preparation, appraisal and management. Each project needs to be planned to contribute to achieving certain measurable and achievable objectives. Hence, a modern system of accountability, project monitoring and evaluation (including *ex post*) is mandatory to further strengthen the State control over the use of public funds for capital investment purposes. Finally, the authorities need to develop and employ new financial planning systems and introduce new effective practices in capital budget execution.
- The PIP-Project assists the GOAR in formulation and implementation of the necessary stages of the Public Investment Program both in terms of the administrative process and financial, economic, and other criteria used for screening of the investment project submissions. The evolution of the PIPP reform suggests that in its first five years of the reform process the spotlight of technical assistance efforts needs to be placed on:
 - a) development and adoption of the necessary regulation in support for project identification, validation, screening, and selection for PIP;
 - b) strengthening of the project appraisal methodologies with procedural requirements of concept papers, pre-feasibility and feasibility studies in preparation of large projects, and project appraisal reports (cost-benefit, cost-effectiveness and cost-efficiency analysis);
 - c) developing the capacities of personnel to manage professionally the PIPP of Azerbaijan Republic; and
 - d) development and adoption of effective channels of cooperation and liaison among the central economic ministries and among/with sector line ministries.

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PUBLIC INVESTMENT POLICY AND PROGRAM MANUAL

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CHAPTER 1. INTRODUCTION

1.1. OBJECTIVES AND PURPOSES OF THE MANUAL

1.1.1. This Manual is about the public investment policy and program in Azerbaijan. Its main objective is to contribute to GOAZ's efforts to develop the **necessary institutional and technical capacity** of all concerned State agencies for the formulation, preparation and approval of sound public investment policy and program (PIPP).

1.1.1.1. It is also an important objective of this Manual to **strengthen the inter-linkages and consistency of development planning, budgeting, and investment programming** with each other by using the improved PIPP preparation as a bridge among them.

1.1.1.2. This Manual's last, but certainly not least, important objective is to make a strong contribution to **GOAZ's anti-corruption and democratization policies** by bringing the public investment project selection process under objective and transparent procedures and criteria.

1.1.2. To meet the above objectives, the Manual aims at strengthening the existing **institutional set-up**, improving the **current procedures and practices**, and introducing **new techniques and formats**. It is, therefore, quite natural that the current system needs several new or improved key institutions, procedures, and analytical techniques and formats for the formulation, preparation, and approval of a sound PIPP.

1.1.2.1. These requirements include:

- The **establishment of new institutions** including the Economic Sub-Cabinet at the Cabinet of Ministers level; the PIP Task Force and the Investment Review Committee both at MOED;
- **Adoption of new procedures** and practices like developing the PIP as a development planning and macroeconomic policy tool rather than as a projects list; improving the Sector Development Plans as a basis for sector's planning, budgeting, and investment programming inputs; adapting the PIP Call Circular to the new concept of the PIP; separating the project development process from the PIP preparation; making the project preparation and selection process involve only LMs/agencies, MOED, and MOF; and
- **Introduction of new instruments**, or their stricter observance if already being used, such as a formal consistency model in determining the PIP's overall and sectoral framework; adopting a formal approach for determining the overall and sector PIP ceilings; a completely improved PIP CC format; introducing some methods of qualitative (policy-based) as well as formal and standard cost-benefit, cost-effectiveness and other quantitative measures for project prioritization and selection.

1.2. COVERAGE OF THE MANUAL

1.2.1. This Manual is about the public investment policy and program (PIPP) in Azerbaijan, but it does not cover the whole PIPP process. Its coverage is confined to:

- the **formulation of the public investment policy**;
- the **preparation, processing, and approval of the public investment program** in line with the formulated investment policy; and
- the identification, preparation, processing, and acceptance of the **public investment projects** into the public investment program.

1.2.1.1. The Manual thus leaves out the implementation of PIPP and its monitoring and evaluation (M&E). **The implementation of PIPP** involves policy, budgetary, and project aspects. **Policy aspects** are essentially implemented through all macroeconomic policies, including fiscal, monetary, balance of payments, and incomes policies, and cannot be regulated by a specific manual. The **budgetary aspects** of PIPP implementation are regulated by the related procedures and practices of the State Budget and those of the other State Agencies' budgets. Project implementation also has budgetary and management aspects. Projects' budgetary issues are covered by budget procedures, as already noted, by MOF and LMs/agencies. **Project Management** is an important and separate area of specialization and should be guided and regulated by a standard public-sector-wide manual, supported by sector-specific manuals in view of widely differing features of public investment projects in different sectors.

1.2.1.2. The **Monitoring and Evaluation (M&E) of PIPP** are very important not only for assuring the efficient use of public resources but also for valuable inputs (feedbacks) they will provide to the next round of the PIPP process. It is indeed such feedbacks resulting from monitoring and evaluation of the recent and current PIPPs that will help to make the next PIPP a reconciliation of top-down and bottom-up planning processes.

1.2.1.2.1. The M&E of PIPP also has budgetary, policy, and project aspects. The **budgetary aspects** are again carried out through the existing reporting procedures and information flows of the State and other agencies' budget.

1.2.1.2.2. The M&E of **project implementation in physical terms** are almost non-existent at LMs/agencies and are not even considered at MOED. There is a major need to develop M&E capacity at both LMs/agencies and MOED, and to prepare a good manual to this effect, for sound project implementation and for drawing the necessary lessons for the design and improvement of the future PIPPs.

1.2.2. The coverage of **this Manual also excludes budgeting of public investment spending (projects)** because it defines PIPP as a policy and planning instrument, and not as a budgetary tool. Budgeting of all public capital spending should be done by MOF and all State agencies as an integrated part of their overall (including recurrent, capital, and transfer) budget formulation and implementation processes.

1.2.3. The Manual's **coverage of the public sector is all inclusive**. It covers all budgetary organizations, all State owned extra-budgetary funds (SOFAR and SPF), all State

Owned Enterprises (SOEs) irrespective of the size of State ownership, and all local and municipal authorities. Reporting requirements cover all **spending defined as “capital spending”** according to the economic classification of GOAZ/MOF **Budget Classification System**, irrespective of the sources and types of their funding and whether they are in the form of specific projects or not.

- 1.2.4. The universal character of this Manual reflects its definition of PIPP as a planning and policy instrument.** A meaningful analysis of the size and sectoral structure of public investment and the changes in them with respect to the national and sectoral development objectives and strategies, and the formulation of sound public investment policies and programs will not be possible unless MOED receives on a **regular and timely basis full information on capital spending** in required formats from all State (the public sector) agencies.

1.3. THE METHODOLOGY

- 1.3.1** As for the content of the Manual, its methodology considers PIPP as comprising three modules: (i) the national and sectoral development policy framework as a reference post for PIPP parameters over the medium-term (**Chapter 2**); (ii) translating this into a public investment program, which will reconcile public investment projects proposed by LMs/agencies with (i) formulated by the central ministries (**Chapter 3**); and (iii) the projects development from the project idea stage through pre-feasibility and appraisal stages to its acceptance into the PIP (**Chapter 4**).

- 1.3.1.1.** Although the Manual is about the PIPP, it nevertheless regulates certain aspects of the formulation of Medium-Term Macroeconomic Framework; Sector Strategic Development Plans, and inter-linkages among planning; budgeting and investment programming. This is due to the fact that **PIPP cannot be developed as a stand-alone policy instrument**, and that its successful design and implementation depend on certain corresponding improvements in related policy instruments, which are in any case needed for many other equally, if not more, important reasons. The Manual, however, limits its interest in such **“complementary” areas** to the extent relevant for the formulation of a sound PIPP.

- 1.3.1.2.** Finally, this Manual is certainly **not a teaching or training manual**. Nor it is an **operational manual** explaining how some key technical tasks to be performed. It is rather a **“procedural manual”** or perhaps coming close to a guide-book, explaining how and through what steps the public investment policy and investment program should be prepared in Azerbaijan in order to ensure the right outcome, provided that the required technical work is also done satisfactorily. It would not, however, be possible to undertake “good technical work” on PIPP and to produce “good PIPP” without such a Manual because the adjective “good” in this case can only be assured by the procedures of the kind developed in this Manual.

CHAPTER 2. PUBLIC INVESTMENT POLICY AND ITS INTEGRATION WITH PLANNING AND BUDGETING

2.1. STRATEGIC MACRO-PLANNING PROCESS

2.1.1. PIPP is an integral part of government planning and budgeting activities. This results from the fact that every phase of the process of public investment development and appraisal is closely linked with each other as well as with the national and sectoral development objectives and strategies.

2.1.2. The GOAZ formulates and implements its public investment policy and program (PIPP) for the next fiscal year plus the following three years in order to most effectively use the country's limited resources for attaining the medium- to long-term national and sectoral development objectives. Hence, the PIPP process is an integral part of the national and sectoral development planning and budgeting processes. This will be achieved by integrating the formulation and preparation processes of PIPP with that of the development plans (e.g., SPPRSD, SPSEDR, and SSDPs) and the government budgets (State Budget, Consolidated Budget, and MTBF). This Manual, therefore, refers to some existing as well as new (proposed) practices in planning and budgeting, even though its main concern is public investment programming.

2.1.3. Setting national and sectoral development objectives and strategies: Total public investment and its distribution by sector and by region over the medium-term will be estimated as part of the same exercise with respect to total investment in the economy. This in turn requires prior identification of national and sectoral development objectives and strategies. The latter is essentially a political decision made by the President on the basis of appropriate technical work prepared, under the guidance and supervision of the Economic Sub-Cabinet at the Cabinet of Ministers level, jointly by MOED (the Economic Sub-Cabinet Secretariat), MOF and NBA (see Annex 1 for the composition and main functions of the Economic Sub-Cabinet).

2.1.3.1. Early in the fiscal year the President will request the Economic Sub-Cabinet to undertake a review of recent economic developments and an assessment of medium-term prospects. This review and assessment will be prepared by MOED jointly with MOF and NBA and discussed at an Economic Sub-Cabinet meeting by **end-January**, resulting in the President tentatively identifying the new medium-term national and sectoral development objectives and strategies.

2.1.3.2. MOED will prepare, jointly with MOF and NBA, and submit by end-February to the Economic Sub-Cabinet three scenarios of development (the base-, low-, and high-cases of MTMF) for the next four years by using a formal consistency model (e.g. the WB's RMSM-X), identifying annual growth rates of overall and sectoral GDPs, annual inflation, budget and BOP current account balances, total and public investment by sector, and broad sectoral spending ceilings (further details are provided in Annex 2).

2.1.3.3. Parallel to MOED-led work on the MTMF scenarios, the broad budgetary targets, including sectoral spending ceilings, will be developed by MOF-led work into the

three corresponding scenarios of Medium-Term Fiscal (Financial) Framework (MTFF), with detailed estimates/prognoses of all revenues, expenditures (current, capital and transfers), and financing transactions of all public sector agencies. MOF submits these MTFF scenarios to the Economic Sub-Cabinet by **mid-March**.

- 2.1.3.4. After appropriate discussions of these scenarios of both MTMF and MTFF, the Economic Sub-Cabinet will decide on the base-case scenario of each for the next four years and recommend them to the Cabinet of Ministers (COM) by **end-March**. Once approved by the COM, MTMF and MTFF will serve as the basis of the **Joint Call Circular (JCC)** (see below) issued by the COM by **mid-April** to guide all government agencies in their planning, investment programming, and budgeting work in the current year.

2.2. STRATEGIC SECTOR DEVELOPMENT PLANNING (SSDP)

- 2.2.1. **SSDP reconciles and integrates top-down and bottom-up planning with each other.**

- 2.2.1.1. The JCC will include the most recent set of medium-term national and sectoral development objectives, strategies and spending limits as well as appropriate guidance and instructions to be observed by all agencies in preparing their SSDPs (or updating the existing ones) and their submissions to MOED and MOF for planning and budgeting documents. What appears to be a top-down planning process in this case, however, already has significant reconciliation with bottom-up planning built in the process: This is because JCC is **based on the review and assessment by both line and central ministries of recent sectoral developments**, outcomes of major projects in all sectors, and the progress made in the implementation of SSDPs.

- 2.2.1.2. Each line ministry/agency will forward the JCC, together with its own instructions and guidance, to its departments and field offices, asking them to send to the LM/agency head-office all requested information and their spending requests with appropriate justifications. LM/agency will then mould such information and spending programs (bottom-up planning) into its SSDP in line with the guidance and instructions of the JCC (top-down planning).

- 2.2.1.3. This reconciliation of bottom-up and top-down planning processes is further facilitated by all LMs/agencies **using the same structural format for their SSDPs** as shown in **Annex 3**. Using a common SSDP format by all agencies will enable MOED and MOF to check their consistency and feasibility with respect to the overall development objectives and constraints as well as with each other.

- 2.2.2. **SSDP is an “operational document” as distinct from “a wish list of projects”.**

- 2.2.2.1. Every LM/agency charts in its SSDP the main contours of expected developments in its sector with adequate explanation of how they would be realized (i.e., through what strategies, policies and projects, and with what resources).

2.2.2.2. SSDPs are prepared usually for 10 to 20 years. Hence, it is difficult for LMs/agencies to assure the realism and operational value of SSDPs. LMs/agencies will, therefore, annualize the next four years of their SSDPs as a rolling medium-term development program of their sectors. The annualized part of any SSDP should include only those programs and projects that can be realized through funding requested in the LM/agency's budget and PIP submissions to MOF and MOED, respectively.

2.3. THE PIP IS A POLICY AND PLANNING DOCUMENT

2.3.1. PIP is a policy and planning rather than budget document. It does not provide budgetary commitments and spending authorization to LMs/agencies. It is the State Budget prepared by MOF and approved by the Milli Mejlis that can authorize LMs/agencies to undertake appropriate capital spending. Hence, those PIP projects and programs to be undertaken by the budgetary agencies should have corresponding spending entries in the State Budget itemized and classified by administrative, functional and economic categories.

2.3.1.1. The preparation of PIP as a policy and planning document is explained in the next chapter, while the main content of its policy analysis is explained here.

2.3.2. The PIP will analyze the recent and current public investment policies and performances; derive lessons from them; recommend appropriate public investment policies to help attain the national and sectoral development objectives over the medium-term; and identify for inclusion in the State Budget the major public investment projects and other capital spending proposals in line with the proposed public investment policies.

2.3.2.1. As distinct from developed market economies, where the main task of public investment is to refine resource allocation at the margin, the **PIP in Azerbaijan** should be used as an instrument for **sustained economic development with stabilization,** and changing **the structure of asset ownership** and production in the economy.

2.3.2.2. MOED will therefore present in the PIP an analysis of recent, current, and expected developments in the overall size of public investments with respect to the national and public sector resource envelopes and assess its appropriateness in terms of its contribution to economic stabilization and sustained development.

2.3.2.2.1. This in turn requires an analysis of the overall size of the PIP with respect to total amount of investment in the economy, given the desired role of the GOAZ in the economy and the size of financial resources of the public sector.

2.3.2.3. GOAZ has long decided that Azerbaijan will develop as a market-based economy and the government's role will gradually be reduced to providing public services and regulatory functions, except where market forces cannot prevent the

emergence of natural monopolies and where large social externalities and limited private profitability are involved (e.g., education, health, and defense).

- 2.3.2.3.1. The PIP will accordingly review and evaluate both the progress that has been taking place in the **privatization program** through the end of PIP period; and public investments in general and by SOEs in particular vis-à-vis the privatization program.
- 2.3.2.3.2. The **change in asset ownership** for transition of Azerbaijan to a market economy will also require that the PIP evaluate the **rationale of public investment programs** and projects in terms of government role in the economy. This will help diagnose at what pace GOAZ has been moving towards a market-based economy.
- 2.3.2.3.3. The PIP will also review and evaluate to what extent the composition of its projects content contributes to Azerbaijan's **transition to a private-sector-led economy**, particularly by enhancing productivity of private investments and social justice programs (e.g., investments in infrastructure, health, education, and public safety).
- 2.3.2.4. Since independence, GOAZ has been aiming at **changing the structure of production** in Azerbaijan in three major directions: (i) moving away from dependence on the former Soviet economy towards integration with world economy; (ii) developing the non-oil sectors; and (iii) promoting activities and regions that make greater impact on poverty reduction.
 - 2.3.2.4.1. Having committed to transition to a **private-sector-led market economy**, GOAZ has been developing the necessary **business and investment environment** for the private sector to undertake the desired transformation in the structure of overall production along the directions noted above. To this end, the government will use the **public investment policy** as one of the most effective tools to **guide and facilitate private sector activities**.
 - 2.3.2.4.2. The PIP will therefore review and evaluate the recent and current public investment policies in terms of their possible contribution to the **desired transformation of production structure**, and propose necessary revisions and improvements in them to enhance their effectiveness over the next PIP period.
 - 2.3.2.4.3. The above analysis and recommendations for the next PIP period will be based on the functional allocation of past and future public investments both across and within sectors in relation to the public-private sectors' role in the economy and the objectives for structural change in production.
- 2.3.2.5. Finally, the public investment policy will aim at attaining its objectives, both those which are noted above and others that may be included in the annual JCCs, in most efficient and sustainable ways. Hence, the PIP will evaluate the recent, ongoing, and proposed public investment policies to diagnose if their formulation process included the necessary mechanisms for ensuring: (i) the aggregate fiscal

discipline; (ii) sound prioritization of investment programs and projects; and **(iii) technical efficiency and sustainability** of capital expenditures.

2.3.2.5.1. It will be possible to keep the public investment policy from having adverse effects on the **aggregate fiscal discipline** with the help of appropriate macroeconomic and sectoral planning procedures and instruments as explained above. **Sound prioritization of investment expenditures** requires, first, observing strategic prioritization in functional allocation of total public investments across and within sectors, as explained above, and secondly, undertaking economic and social cost-benefit or cost-effectiveness analyses, which will be explained in the next chapter. Finally, the PIP will evaluate **technical efficiency and sustainability** of past and proposed public investment policies. This will in turn require looking into whether the PIP is accompanied by adequate budgetary allocations for recurrent expenditure requirements of its projects, particularly with the right balance between wage and non-wage (O&M) recurrent expenditures.

2.4. INTEGRATION OF PLANNING, PUBLIC INVESTMENT PROGRAMMING, AND BUDGETING

2.4.1. It is of **crucial importance** to ensure that both the plans (SPPRSD, SPSEDR, and SSDPs) and the PIP will be fully implemented and that the Consolidated/State Budget will serve to attain the national and sectoral development objectives of the country.

2.4.1.1. The statutory responsibility for the preparation of the budget documents (including State Budget, Consolidated Budget, MTBF, and their attachments as shown in the Budget System Law) lies with the MOF. Similarly, the preparation of the Public Investment Program is the responsibility of MOED. The State Programs for Poverty Reduction and Sustainable Development and for Socio-Economic Development of Regions are prepared by the specially established two Secretariats under MOED. The Sector Strategic Development Plans (SSDPs) are prepared by LMs/agencies.

2.4.1.2. The plans' aspirations in terms of national and sectoral developments over the medium-term would be meaningful only if they are based on realistic estimates of budgetary (funding) and other constraints. Otherwise, those activities, programs, and projects, which are not provided for in the LMs/Agencies' submissions to MOF and MOED for the rolling medium-term Budget and the PIP, will be redundant and will only damage the operational value of the plan documents.

2.4.2. With this Manual, GOAZ is adopting **three important practices** to ensure **complete harmony and integration of these key policy instruments with each other**. These practices, which have already been referred to above, are the following:

- Adopting a **central coordination body** (the Economic Sub-Cabinet) to guide and supervise the necessary technical work to prepare MTMF and MTFF (or MTBF) in line with the medium-term national and sectoral development objectives and strategies announced by the President;
- Based on the MTMF and MTFF, issuing appropriate guidance and instructions to all state agencies, **in a single document (JCC)**, for the preparation of their annual submissions to MOF and MOED for the budget

- and plan documents, and asking them to present their responses for the Budget, PIP, and SPPRSD also in a single document; and
- Requiring all LMs/agencies to prepare (or revise) their **Sector Strategic Development Plans (SSDPs)** in line with the national and sectoral objectives and strategies of JCC and with the template recommended by MOED (Annex 3), and to base all their submissions for the budget and plan documents upon their SSDPs.

CHAPTER 3. PUBLIC INVESTMENT PROGRAM (PIP)

3.1. COVERAGE AND COMPOSITION OF PIP

- 3.1.1. The coverage and composition of PIP should be determined according to its purposes.** This Manual has been prepared with the understanding that GOAZ wants to use the PIP as a major policy and planning instrument in the successful management of national and sectoral development of the Azerbaijan economy over the medium- to long-term.
- 3.1.2. Hence, the PIP should have a universal coverage. All state agencies, including state owned enterprises, will report to MOED and MOF all necessary information on their investment and other capital spending--last year's actual, current year's expected actual, and the next four years' proposed figures. The necessary reporting details and instructions will be provided by the annual JCC/PIP CC as explained below.**
- 3.1.2.1. A template for the Azerbaijan public sector's overall balance of uses and resources is given here in Annex 5.** This presentation provides not only an overall picture of public sector financial balances but also an **invaluable analytical tool**, particularly if its income, expenditures, savings, and investment data correspond to that of national income accounting.
- 3.1.2.2. With the help of the public sector's overall balance table, the PIP will compare the size of public investment against that of public savings by each major component of the public sector.** This is in fact an indispensable analytic presentation needed for the analysis of not only the public investment policy but also the overall macro balances of the economy. It will enable GOAZ to see what segments of the public sector is contributing, or not, to **inflationary pressures** in the economy and how such pressures are absorbed or not by each segment's resorting to capital transfers from the private sector and foreign borrowing.
- 3.1.2.3. The presentation/format of the PIP should facilitate its usage by the GOAZ as a policy and planning instrument.** There is not an internationally accepted standard format of PIP. However, a sample format for the Azerbaijan PIP, in the form of an annotated outline, is provided here in **Annex 6**, largely reflecting the main contours of public investment policy analysis described in the previous chapter.
- 3.1.3. This Manual requires that all LMs/agencies report all necessary PIP-related as well as other capital spending information to MOED and MOF as grouped by functional, economic, and administrative classification; by the central authorities, local authorities, municipalities, and SOEs (those included in the privatization program shown separately); and by financing whether from the State Budget, own funds, domestic**

borrowing, and external funding. This will enable both the MOF to properly include all capital spending of all budgetary agencies in the State and Consolidated Budget and the MOED to analyze such spending as noted in #2.3.

3.1.3.1. In order to facilitate the whole process of PIP reporting and analysis, MOED will maintain a Public Investment Projects Registry (PIPR), which will form the introductory section of the PIP Database. For PIPR purposes, MOED will introduce a public-sector-wide “investment projects numbering system” to be used by all LMs/agencies. A sample of such numbering system could be as follows: 2006 C 02 0037 (or 2006C020037), which indicates that the project was first accepted into the PIP in 2006; belonged to a sector whose main code is “C” and to a sub-sector coded with “02”; and was numbered by its LM/agency with “0037”.

3.2. PREPARATION OF THE PIP CALL CIRCULAR

3.2.1. The PIP preparation process will start early in the fiscal year with the initiative of the President’s Office to have the national and sectoral development objectives and strategies reviewed and revised, as needed, over the medium-term (more specifically, over the next four years). This will involve developing a MTMF by MOED and a MTF/MTFB by MOF that will serve as the common framework for all plan and budget documents as well as for the formulation of public investment policy and program. The previous Chapter indicated the procedures to be followed and the main parameters to be worked out for these purposes. The present chapter, on the other hand, provides guidance and instructions on how to translate those objectives and strategies and investment policy parameters into an effective PIP, starting with the preparation of a satisfactory PIP Call Circular.

3.2.2. The national and sectoral development objectives and strategies and appropriate public investment policies to realize them are transformed by the MOED, jointly with MOF and the SPPRED Secretariat, into a Joint Call Circular (JCC) providing necessary guidance and instructions to all State agencies on how to prepare their submissions to the next SPPRS (or its Annual Performance Review) and the rolling medium-term budget and PIP.

3.2.2.1. The JCC is composed of four distinct but interrelated parts:

- a) An overview of national and sectoral development objectives, strategies, priorities and expected outcomes;
- b) Guidance, instructions, and information requests regarding the sectors’ submissions, based on the overview in (a) above, for the preparation of the next SPPRS or its Annual Performance Review (that may be called “SPPRS Call Circular”);
- c) The same as in (b) for the preparation of the rolling medium-term Budget (Budget Call Circular); and,
- d) The same as in (b) for the preparation of the rolling medium-term Public Investment Program (PIP Call Circular).

3.2.2.2. Since this Manual is about the PIPP, it essentially regulates the PIP-related part of the JCC, naming it as the Joint/PIP CC. The prefix “joint” is kept in order to emphasize the crucial importance of having a full harmony between the three call

circulars noted above. Annex 4 provides the 2007-10 PIP Call Circular as an example, though it still has two important elements missing, namely (i) the macroeconomic and sectoral framework, and (ii) the sectoral spending ceilings.

3.2.2.3. The JCC (or the JCC/PIP CC) will give as much emphasis on **providing adequate guidance and instructions to LMs/Agencies** as on information requests from them, particularly because the former will assure the success of the latter. Such guidance and instructions will identify in detail the national, sectoral, regional, and project-wise strategies and priorities based on the objectives and strategies envisaged by the rolling MTMF and MTFF. MOED will also provide in the annual Joint/PIP CC detailed, if necessary sector-oriented, guidance and instructions regarding the interpretation and implementation of priorities; specific concerns relating to particular shortcomings in recent years' practices; appropriate warnings of potential risks; new approaches and techniques to be adopted in investment programming, and the like.

3.2.2.4. The Joint/PIP Call Circular requests information from line ministries in three categories:

- **Sector related information** that will help with the formulation of public investment policy and program for the next four years;
- **Information on each project** that the line ministry proposes for inclusion in the next rolling medium-term PIP; and,
- **Capital spending proposals** other than "public investment projects".

3.2.2.5. In the **sector related information section** (Form 1) of the Joint/PIP CC, all state agencies will provide the following **information and analysis** on their sectors:

- a) **General description of the sector** and its main economic and administrative structure; its relative importance in the economy, particularly in relation to GOAZ's poverty reduction and regional development policies; and the sector's recent (e.g., past five years) performance.
- b) **Recent reform programs** implemented in the sector; the remaining problems and shortcomings; and the impending and proposed reform programs.
- c) The medium-term development objectives of the sector; the proposed strategies and policies to that effect; and the **proposed investment programs and projects** to implement them.
- d) **A review of the public investment programs in recent years** (e.g. past five years), with particular emphasis on its: (i) changing functional, economic and social priorities; (ii) changing composition of funding; and (iii) implementation difficulties resulting in projects being delayed or left incomplete.

3.2.2.6. The **project information section** (Form 2), also called the **Project Brief** when used as a stand-alone document, has several sub-sections as follows (Annex 7):

- a) **General Information on the project** (Form 2.1): Describe the identities of the Project (its sector, agency, name and number, and location) and the staff involved in its preparation and implementation, and its main characteristics (its product or service, size -capacity and total cost- and the beginning and completion dates).

- b) **Funding of the project by the State Budget, own resources, external sources, and others, as of the end of the past year and the annual estimates for the current and next three years (Form 2.2).**
- c) **Information on external funding of the project (Form 2.3), including the terms of credit, and its disbursement plan according to both the project document and the PIP.**
- d) **The progress of the on-going project (Form 2.4) in terms of actual annual expenditures, broken into domestic and foreign funding, as compared with that envisaged by the project document and by the PIP.**
- e) **A brief appraisal and justification of the project (Form 2.5). This is the most important set of information requested from the LMs/Agencies. It includes:**
 - The objectives and expected results of the project in terms of its contribution to the main national and sectoral development objectives;
 - The current status of the project, i.e., at what stage of the project cycle it is; how are the preparations for the next stage(s); is it on time with the project implementation schedule?
 - Current and potential problems met during the project's current and future stages, and what measures are envisaged to deal with them?
 - The main indicators of the project's selection criteria, e.g., NPV, IROR, cost-effectiveness, etc.

3.2.2.7. The State Budget also includes capital expenditures which are not so far included in the PIP. These are mostly new constructions and major renovation and repair works by LMs/agencies largely involving office buildings, housing schemes, local education and health facilities, and infrastructures of secondary importance. They must be also covered by the PIP if the latter is to be undertaking a full review and analysis of public investment policies in terms of their impact on economic stabilization and national and sectoral development prospects. Therefore, Form 3 of the Joint/PIP CC requires such information from LMs/agencies for the past several years (actual), the current year (expected), and the next four years (the next FY and 3 subsequent years), with a description of the project (spending), its amount, and expected outcomes.

3.2.2.8. Detailed explanation is provided in Chapter 4 below about how LMs/Agencies will prepare their responses to Joint/PIP CC, including prioritization of their public investment programs and projects.

3.3. THE PIP PREPARATION PROCESS

3.3.1. MOED is responsible with the preparation of the PIP along the lines of the sample format given in Annex 6. The process involves two distinct but strongly interrelated tasks: (i) the formulation of the GOAZ's public investment policy over the medium-term based on a sound analysis of recent developments and current prospects of the economy as well as on the national and sectoral development objectives and strategies specified in the JCC; and (ii) identifying the annual list of major public investment programs and projects as well as other relatively less important capital spending schemes of all state agencies that will altogether reflect the implementation of the government's public investment policy.

- 3.3.1.1.** In order to greatly facilitate the PIP preparation process, the LMs/Agencies will provide detailed and well-prepared responses to all requirements of the Joint/PIP CC on the basis of well-prepared SSDPs. The presence of such a SSDP will also be great help to the LM/Agency in providing satisfactory response to the Joint/PIP CC. The basic features of a well-designed SSDP are explained in Annex 3.
- 3.3.1.2.** The preparation of the next rolling (i.e., four-year) PIP will not be difficult mainly because: (i) it will essentially involve updating and revising the last three years of the existing PIP and extending it by a new fourth year; and (ii) most of the work required for the PIP are MOED's essential but routine work of continuing nature (e.g., monitoring the progress of the economy, evaluating SSDPs, appraising the LMs/Agencies' project proposals).
- 3.3.1.3.** MOED's work on preparation of the PIP is led and coordinated by a Task Force headed by the Deputy Minister and comprising all department director(s) and division chiefs responsible with PIP-related work.
- 3.3.1.4.** The preparation of LMs/Agencies' responses to the Joint/PIP CC will be covered in the next chapter.
- 3.3.1.5.** Following the receipt of LMs/Agencies' PIP submissions by MOED, the sector divisions will undertake a careful review and assessment of the PIP submissions in their sectors, in light of guidance and instructions of the Joint/PIP CC. Each sector division will also involve the Macroeconomic Policy, the Fiscal-Monetary, and the PIP divisions as well as the SPPRED and the Regional Development Secretariats in this review and assessment process and obtain their written views on the concerned LM/Agency's PIP submission.
- 3.3.1.5.1.** Based on these views, each sector division will have initial consultations with the appropriate department/division of the concerned LM/Agency to sound out its views on the MOED's tentative assessments of its PIP submission. Each MOED sector division will then submit to the PIP Task Force its recommendations on the PIP submission of each LM/Agency covered by the division.
- 3.3.1.5.2.** The PIP Task Force will request the Macroeconomic Policy Division to sum up all individual LM/Agency PIP submissions and evaluate the aggregate as well as the sectoral sums against the MTMF and MTFP and also for inter-sector consistency. For this evaluation, the Macroeconomic Policy Division will rely on the cooperation and support of all other MOED divisions as needed.
- 3.3.1.5.3.** The PIP Task Force will then review and evaluate each LM/Agency's PIP submission in light of the reports of MOED divisions and decide on the MOED's negotiation position vis-à-vis each LM/Agency. MOF representative(s), who must have already been provided with all appropriate briefing documents, will also participate in the PIP Task Force meetings and will contribute to the formulation of MOED negotiation position on each LM/Agency's PIP submission.
- 3.3.1.5.4.** The MOED Director in charge of sector work will first convey the MOED's position on each sector PIP to his counterparts at all LMs/Agencies and then invite each

LM/agency to a reconciliation meeting, which will be attended also by the MOF representative(s).

3.3.1.5.5. Any remaining differences between MOED and LMs/Agencies regarding the latter's PIP submissions will again be taken up and resolved, if possible, at a final round of meetings between the Minister of Economic Development and each and every Minister/Head of individual LMs/Agencies before the final draft PIP is submitted to MOF for incorporation in the State/Consolidated Budget. Should there still remain any unresolved matters between MOED and the LMs/Agencies, they will then become part of budgetary negotiations between MOF/MOED and the latter.

3.3.1.6. In parallel to the negotiations between MOED and LMs/Agencies, the Macroeconomic Policy Division of the former will be drafting the text of the rolling medium-term PIP by appropriately integrating relevant information and data from MTMF, MTFF, and all the review and assessment reports by MOED divisions on individual LMs/Agencies' PIP submissions. Guidance on the analysis of public investment policy and a sample annotated outline of the PIP are provided above in #2.3 and Annex 6, respectively.

3.4. APPROVAL OF PUBLIC INVESTMENT PROGRAM

3.4.1. Following the completion of negotiations with individual LMs/Agencies, the MOED management will send the final draft PIP to MOF for its concurrence. Since MOF staff has already been involved in its preparation by MOED during both the formulation of Joint/PIP CC and negotiations with LMs/Agencies, both ministries are expected to readily agree on the final draft PIP.

3.4.2. MOED will submit the draft rolling PIP to the Economic Sub-Cabinet for review and then recommendation to COM for its approval. The Economic Sub-Cabinet will assess the draft PIP in light of the guidance and instructions of the Joint/PIP CC as well as new information and comments provided by all ministries and also resolve any remaining differences between MOED and other ministries by acting as the final referee. **The Economic Sub-Cabinet will then approve the final draft PIP and send it to COM for approval** as the GOAZ's public investment policy, programming, and projects document rolling for the next four years, including the next FY and three outer-years.

3.4.3. Once the Economic Sub-Cabinet approved PIP is sent to all State agencies, it will become a binding document for the preparation of the capital budgets of both individual LMs/Agencies and the State/Consolidated Budget.

CHAPTER 4. PUBLIC INVESTMENT PROJECT CYCLE

4.1. PIP AS PROJECTS PLANNING FRAMEWORK

- 4.1.1. The Public Investment Program (PIP) is composed of two parts: (i) an analysis and evaluation of the public investment policy; and (ii) all public investment projects and other public capital expenditures of all State Agencies (including the budgetary, extra-budgetary, and non-budgetary government agencies, local governments, and state-owned enterprises) to implement the former.**
- 4.1.2. Both the size and sectoral composition of the PIP projects content will be determined essentially through a top-down planning process comprising MTMF, MTFF, and JCC.**
- 4.1.3. The programs and projects content of the PIP will, however, be determined on the basis of LMs/agencies' submissions to MOF and MOED for capital spending and investment project proposals. Such proposals will be developed by LMs/agencies in response to the Joint/PIP CC through a bottom-up "projects planning process" starting with the public, civil society and NGOs' participation in the public investment process.**

4.2. RESPONSE TO THE JOINT/PIP CALL CIRCULAR

- 4.2.1. The Joint/PIP Call Circular (Annex 4) will provide line ministries with necessary instructions and guidance regarding 4.1.1. - 4.1.3. The preparation of the Joint/PIP CC was explained in Chapter 3, while this chapter aims at helping LMs/agencies to prepare their response to it.**
- 4.2.2. Azerbaijan has already been practicing with a Medium-Term State Budget and a Medium-Term PIP since 2003, though they still need to be developed and adopted into a formal and systematic planning and budgeting process. The "medium-term" covers a four-year period: the next budget year plus the following three years. The most significant implication of this is that information required by the Joint/PIP CC will be provided by essentially updating and revising last year's sector submission with an addition of the fourth outer-year to it.**
- 4.2.3. In addition, a LM/agency's response to the Joint/PIP CC will be further facilitated by its having a Sector Strategic Development Program prepared according to section 2.2 above. This is also true with respect to line ministries' responses to the Joint/Budget CC and the Joint/PRSP CC. Line ministries are therefore requested to give the first priority in their planning and budgeting work to the preparation of an "operationally meaningful" (i.e., realistic and plausible) SSDP.**

4.3. DETERMINING THE PROJECT CONTENT OF PIP

4.3.1. A line ministry's submission to MOF and MOED for its investment projects and other capital spending proposals over the next four years **must** all be both within its sector **spending ceiling** and **necessary and sufficient to achieve its sectoral development** objectives envisaged by its SSDP and by the SPPRSD and SPSEDR.

4.3.1.1. The line ministries will prepare new SDPs or improve the existing ones with the next four years' program annualized so as to match their submissions for the medium-term rolling budget, PIP, and SPPRSD. This approach is preferred over the alternative of having a separate sector MTEF because it is easier and more effective in linking sector medium-term budget and PIP with its SSDP. Thus, each line ministry's investment projects and other capital spending proposals will be taken from its existing or new SDP.

4.3.1.2. Each new budget and PIP preparation will be an opportunity for line ministries to revise and update not only their rolling medium-term PIPs and budgets but also their SSDPs.

4.3.1.3. Each sector's PPL is actually a summary presentation of its all individual Project Briefs (i.e., based on the project information part of the JCC/PIP CC), which provide detailed information on each investment project proposed for the next rolling PIP (for a sample, see Annex 7). No project **which is not** based on either a **feasibility or pre-feasibility report** can be included in the next two years' PIP. However, projects to be included in the third or fourth year of the PIP could be based on a **Project Concept Paper**.

4.3.1.4. A LM/Agency with a recently prepared long term (10 to 15 years) SDP will have in its projects pipe-line all projects at different stages of preparedness identified as necessary for the achievement of the sector development objectives. Potential projects in the projects pipe-line of a LM/agency are in one of the five **stages of preparedness**: (a) Project Idea; (b) Project Concept Paper; (c) Project Pre-Feasibility Report; and (d) Project Feasibility Report; and (e) Project Appraisal. As the years go by, however, changing economic and social conditions may require some SDP projects be dropped or revised while new projects may need to be added in the projects pipe-line. This Manual's requirement that the first four years of SDPs should be annualized in line with the sector's budget and PIP submissions will actually keep SDPs and their projects list continually updated.

4.3.1.5. All "Project Ideas" will have to be moved into the upper stages before they can be considered by MOED and MOF for the next PIP and the State Budget. A project's progress to the higher stages of preparedness will be decide after its **careful scrutiny against a number of criteria** initially by its sponsoring LM/Agency and then by MOED and MOF. This scrutinizing and selection process is also called the **prioritization of projects**, which essentially amounts to allocating limited resources among competing uses. Both the process and the prioritization criteria used in moving a project idea up the project preparedness stages into the PIP are explained below in Sections 4.5 - 4.7.

4.4. PROCESSING PROJECTS INTO PUBLIC INVESTMENT PROGRAM

- 4.4.1. "Project Ideas"** may come to a LM/Agency's relevant department (e.g., Planning, Finance, Budget, etc) **from widely varied sources**, including an individual member of the public, a private investor, NGOs and civil society, an official of the Ministry or any other ministry, MOED's PIP and sector divisions, etc. These ideas **may originate from SPPRSD, SPSEDR, President's statements, other recent GOAZ documents, former or on-going projects, donors' reports, etc**
- 4.4.2.** These Project Ideas will be discussed and evaluated by the top management of the LM/Agency within its routine work program. If a project idea is considered worth of further attention, the Management decides to include it in the LM/Agency's projects pipe-line, making it a candidate for the next stage, i.e., preparation of a **Project Concept Paper**.
- 4.4.3.** A "**Project Concept Paper**" will be **prepared by the LM/Agency's** relevant department in charge of project development and provide a first formal analysis of a project idea that promises a significant contribution to the national and sector development objectives and strategy. The preparation of a concept paper is the most appropriate stage for the LM/agency's consultations with all potential stakeholders of the project, particularly the grassroots and the interested NGOs and civil society.
- 4.4.4.** The Concept Paper will essentially contain the same information as will later be required for the Joint CC (see # 4.3.1.5). Such information at this stage will be based on tentative estimates of the project unit of the LM/Agency without going into their verification. The purpose is to **highlight the salient features of a particular "project idea"** for a potentially good project without spending much time and resources (see Annex 8 for a sample Project Concept Paper).
- 4.4.4.1.** The **Project Concept Paper** will be approved by the top Management of the sponsoring LM/Agency according to its own internal procedures that may differ from one agency to the other. The Concept Paper will then be **submitted to MOED for review and evaluation**.
- 4.4.4.2.** MOED/PIP Division will obtain the written views of other relevant MOED Departments/Divisions (e.g., SPPRSD, Regional Development, Sector, Macroeconomic, Fiscal-Monetary) on the proposed investment particularly in terms of its conformity with national and sectoral development objectives and strategies, cost effectiveness, and financial implications. Based on these reports and its own assessment, MOED/PIP Division will then make its recommendation, through its Department (MOED/EPFD) Director, to the **MOED Investment Review Committee (IRC)**, which is **chaired by the Deputy Minister (economy)** and includes as member the Director of EPFD, other MOED directors and division chiefs [**identify them**], an MOF representative, and the sponsoring LM/agency's representative(s). **The IRC decides on approval, revision, or rejection of the Project Concept Paper.**
- 4.4.4.3.** **Approval of a Project Concept Paper** by the MOED Investment Review Committee **does not assure its inclusion in the next or future PIPs.** It only means that the

proposed project seems to have good prospects of making significant contribution towards national and sector development objectives and that it should be further processed and developed into the Pre-Feasibility Report.

4.4.5. After the MOED Investment Review Committee approves a Project Concept Paper, it will instruct the EPFD Director to prepare a Pre-Feasibility Report for the project. To this end, the EPFD Director will set up a **Pre-Feasibility Report Team** under the leadership of himself or one of his division chiefs and including members with **appropriate specializations** from the sponsoring LM/Agency, MOF, and MOED (including CER, which has been developing its project preparation and appraisal capacity with the support of USAID/PIPP Training Program).

4.4.5.1. The **Pre-Feasibility Phase** for public investment projects is the most **important and critical stage** of project development. The Project Concept Paper's claims for the project's potential contributions to national and sectoral development objectives and strategies will be checked, analyzed and verified at this stage by sector and technical experts on the basis of relevant data and information from both official and market sources.

4.4.5.2. The coverage of the pre-feasibility study normally includes the following **key modules**: **(i)** The project's definition and its place in the national and sectoral development framework; **(ii)** the structure of demand, stakeholders, and market for the project; **(iii)** the technical and engineering module; **(iv)** environmental module; **(v)** human resources and administrative support module; **(vi)** institutional module; **(vii)** financial module; and **(viii)** economic analysis module (a **sample template** in Annex 9).

4.4.5.3. Each LM submits its approved pre-feasibility studies to the MOED for review and approval. The appropriate department of the MOED receives written comments from all related departments (PRSP Secretariat, SPSEDR Secretariat, Macroeconomic Policy, Fiscal-Monetary-Credit). Here utmost attention is given to what extent the proposed investment project supports national and sectoral development plans, cost-effectiveness and availability of financial resources. Based on this report and assessment the Director of the PIP Department submits its recommendations to the IRC - headed by the Deputy Minister and comprised of directors of the Macroeconomic Policy and Forecasting Department, other relevant departments, a representative of the Ministry of Finance and a LM which proposed an project - for a final scrutiny and approval.

4.4.5.4. The Committee will decide whether the project is to be dropped or moved to the next stage, which is the Feasibility Report phase for **projects with a total cost greater than \$.....million** (this amount will differ by sector and project type and will be adjusted in light of inflation). For smaller projects, the IRC may decide to skip the Feasibility Report stage and directly go to the next stage, which is the preparation of the Project Appraisal Report.

4.4.6. Once a pre-feasibility report of a project with a cost of more than \$... million is approved by the Investment Review Committee, MOED will send the approved report to the sponsoring LM/Agency with an advise that it can now be processed to the

preparation of a full Feasibility Report. The Line Minister/Agency Head will instruct the relevant Department Director to establish a **Feasibility Study Team** for the project, comprising a sector economist/specialist, an engineer, and a financial analyst, who will together guide and oversee the preparation of the full feasibility report.

4.4.6.1. The feasibility report preparation requires substantial work and expertise usually beyond the capacity of the LMs/Agencies, particularly considering that several of such reports will be required by each agency in a particular year. This work will also require several **highly specialized and costly studies** of particular engineering, marketing, and legal aspects of the project. Therefore, the preparation of a full Feasibility Report usually has to be **contracted out** to appropriately specialized and experienced consulting firms and requires considerable **funding from the State Budget** for consultants' fees and associated studies.

4.4.6.2. The preparation of a full feasibility report may take **several months and even years** for large and complex projects. Its review and evaluation by the sponsoring LM/Agency and other related authorities (e.g. for environmental, public health, legal authorities, tariff commission) as well as by potential donors and/or funding agencies will also require substantial time before it can be submitted to MOED and MOF for final decision on its inclusion in the PIP and the Budget. In the meantime, the national and sectoral economic, social and political conditions and priorities at the time of MOED's evaluation of a Feasibility Report may have become quite different from those which underlay the pre-feasibility report of the same project. Besides, the Feasibility Report may have come up with considerably different results on certain aspects of the projects than the pre-feasibility report. Hence, following a LM/Agency's submission of a full Feasibility Report, **MOED and MOF will need to undertake an Appraisal Report** of that project to confirm its acceptability into the PIP under both new macro and sectoral conditions and new features of the project.

4.4.7. The **Project Appraisal Report** is a technical report consisting of concisely written chapters on the project's principal aspects, justification, and implementation within 30 to 40 pages (see Annex 10 for an annotated sample template). The Appraisal Report will assess the suitability of a project to Azerbaijan's medium- to long-term national and sectoral development objectives and strategies. It will also identify the critical risks to which the project may be exposed. Finally, it will serve as a guide for project implementation and monitoring.

4.4.7.1. An Appraisal Report will also be prepared for projects for which a full Feasibility Report is not required because of their size. This will serve two purposes of: (i) confirming the evaluations of the pre-feasibility report, particularly if some considerable time has passed since its preparation, and (ii) assuring the project's acceptability from the angle of the national and sectoral development framework, which is covered only tentatively at the pre-feasibility stage.

4.4.7.2. The **Project Appraisal Report** will be prepared by a team assigned by the **MOED Investment Review Committee** and comprising the chief of MOED's relevant sector division (team leader), one representative of MOF and the sponsoring LM/Agency each, and an expert of the MOED/PIP division. Following the IRC's approval of an Appraisal Report that does not require any additional work on the project, the project becomes a **strong candidate for inclusion in the next two**

years' PIP, depending on the evaluation of MOED's PIP Task Force in view of the size of the project, overall resource envelop, funding arrangements, and other relevant factors.

- 4.4.7.3. However, should the Appraisal Report recommend some changes in the project, the IRC will evaluate the proposed changes in consultation with the sponsoring LM/Agency and MOF and will decide on one of the following alternatives: (i) disregard the proposed changes and proceed with the project as originally designed; (ii) return the project to the sponsoring LM/Agency to make all or part of the recommended changes before it can be considered for the next PIP; and (iii) put it on "mothballing" for reconsideration in the future; and (iv) drop it completely from the LM/Agency's PIP.
- 4.4.8. **Following the approval of the PIP by the Economic-Sub Cabinet and COM, its projects can be included in the medium-term budgets of the State and other Agencies' (e.g., SOEs, SOFAZ, municipalities) as they appropriately belong to. This will be followed by finalizing the loan/credit agreements and the implementation plan included in the project package. At present, the former requires endorsement by both the COM and President of every project loan/credit with State guarantee (see Annex 11). The implementation plan should involve both the disbursement and use of budgeted capital spending and the implementation of the project construction and its equipment installation. While the former is regulated by the current statutory procedures of the State and other Agencies' budget implementation, the latter will require a separate manual for "Project Management", which is now lacking.**
- 4.4.9. The process for developing a project idea into the implementation stage has been described above without any distinction between projects with and without external funding. This is partly due to the fact that one manat of additional public money spent on a public investment project deserves the same utmost care whether borrowed from abroad or taxed away from the national output. It is also due to the expectation that with the expansion of oil revenue over the medium- to long-term, a rapidly growing share of Azerbaijan's public investment program will be funded from domestic savings.
- 4.4.9.1. Some external funding agencies, particularly the major IFIs, however, also have their own project development procedures, which largely correspond to those described above. They usually come up with their own project ideas, purported to be based on GOAZ's development priorities; prepare the project concept paper for their management; and then get the borrowing LM/Agency to have, with their help, the feasibility report prepared by a reputable consultancy. The funding IFI will then carry out its appraisal for own management to confirm the project's acceptability from the angle of its assistance strategy for the country, which is supposedly coincides with GOAZ's development strategy.
- 4.4.9.2. The fact that an externally funded project is carefully processed by its funding agency will not obviate the need for GOAZ's applying the procedures of this manual to the project in question to make sure that it will meet the government's long-term national and sectoral development objectives and strategies. On the other hand, the work done by the funding IFI, if shared with GOAZ, will certainly be a valuable help to the government work on the project.

4.5. PRIORITIZATION OF PROJECTS

4.5.1. Prioritization of projects at a **profit-maximizing private enterprise** is rather simple and straightforward. A commercial/industrial project's stream of all costs and benefits can first be **valued at market prices** and then discounted by the market rate of interest to find their present values. The resulting rate of net profitability of the project can thus be compared to alternative projects' profitability and to the project owner's cut-off rate (e.g., the long-term bank deposit interest rates or higher) to decide if the project would be included or not in the enterprise's projects portfolio (Annex 13).

4.5.1.1. In the case of public sector projects, particularly other than those of SOEs, **serious difficulties are encountered in prioritizing them** because their benefits (e.g., education, health, defense, antipollution services) are mostly non-traded and hence **not valued in the market**. Moreover, even the market-valued costs and benefits of public investment projects will have to be adjusted for a host of **externalities**, which are not captured by the market mechanism. Finally, the main objective of public investments cannot be simply put as "profit maximization" even if profit is defined as the net return to the "national economy". **Social considerations** like impact on **poverty and income distribution** should also be among the indispensable criteria used in prioritization and selection of public sector projects.

4.5.1.2. The **cost-benefit analysis**, that is a standard tool for prioritization and selection of private sector projects (see # 4.5.1.), will thus become quite a **sophisticated and cumbersome technique when applied to public investment projects** even with tradable costs and benefits because of adjustments needed for externalities (**economic analysis**) and social considerations (**social analysis**). Besides, most public investment projects are not amenable to any quantitative analysis even if additional complicated work is considered worthwhile.

4.5.1.3. As distinct from private sector projects, the public investment projects will therefore be prioritized and selected on the basis of not only cost-benefit analysis but a **combination of policy-based and quantitative criteria**.

4.6. POLICY-BASED PRIORITIZATION

4.6.1. **Policy-based prioritization** will appraise public investment proposals in terms of their suitability and possible contribution to GOAZ's medium- to long-term development objectives, strategies, and policies.

4.6.1.1. Government's development objectives, strategies, and policies would mostly **reflect and change according to the social, economic and political platform** of the political party in power. However, **there is no any standard technique** for measuring a public investment project's suitability and expected contribution to such objectives and strategies.

4.6.1.2. This manual will therefore set only some basic principles of policy-based prioritization of public investment projects and leave it to the annual Joint/PIP CCs

for GOAZ to guide and instruct all public sector agencies about the detailed policy-based criteria to be used for the next rolling PIP.

4.6.2. Chapter 2 above has set the main directions of the **public investment policy** according to the GOAZ's salient objectives and strategies for the medium- to long-term macroeconomic and sectoral development of the economy. Accordingly, the prioritization and selection of public investment projects will observe **the following policy-based criteria** in order to support the GOAZ's development objectives.

4.6.2.1. Public investment (capital spending) proposals, both at macro and sector levels, can not exceed **the ceilings set by MOED** in line with public investment requirements of **sustained and stable development** of the economy over the medium-term (See Annex ... for setting the sector ceilings). Setting such ceilings should and will reflect **GOAZ's political choices** among alternative resource uses at the national and sector levels.

4.6.2.2. Once the total size and sectoral composition of public investments are thus determined, the first major policy-based criterion to be applied by LMs/agencies to all public investment proposals will be whether there is adequate **justification for the public sector involvement** in those projects rather than leaving them to the private sector (see # 2.3.2.3.on justification for public investment). Otherwise, even a very high rate of return or lack of adequate private sector capital and skill accumulation will not justify a direct public sector involvement in a project. This will be the most strategic criterion for the formulation of sound public investment policy in any country, including Azerbaijan, aspiring for transition to a market economy.

4.6.2.3. Among projects which are appropriate for the public sector involvement, preference will be given to those particularly contributing to the **development of the non-oil sectors**. Such projects may include both physical (e.g., roads, electricity, water and sewerage) and social (e.g., education, health) infrastructure schemes, which would greatly contribute to profitability of the private sector projects in the non-oil sectors.

4.6.2.4. **Poverty reduction** has the utmost priority for GOAZ in allocating its public spending among alternative uses. There is, however, a tendency of all LMs/Agencies to characterize everything they do as "contributing to poverty reduction". It is, therefore, necessary to identify the poverty reduction criteria in terms of more concrete goals and targets as specified in the 2006-15 SPPRS with respect to the UN's MDGs.

4.6.2.5. Another important direction of Azerbaijan's Public Investment Policy is the emphasis GOAZ puts on **reducing disparities in socio-economic development of the regions** while pursuing the other prioritization criteria (e.g. the development of non-oil production capacity and poverty reducing policies particularly in the less developed regions).

4.6.2.6. In addition to the macro and sectoral policy-based public investment criteria as mentioned above, there will be **micro policy-based criteria** regarding the nature and status of the project and its management. These will include the following:

- 4.6.2.6.1. **The extent of completion of the project:** Projects near completion will be given higher priority than others;
- 4.6.2.6.2. **Nature of capital spending:** Projects requiring capital spending for major repairs will be given priority over new investment projects;
- 4.6.2.6.3. **Better performing projects:** Such projects will be specially supported in order to encourage efficiency;
- 4.6.2.6.4. **Leveraging domestic and foreign financing:** Projects where GOAZ funding from the State Budget facilitate raising higher amounts of domestic and foreign funding will be given higher priority.
- 4.6.2.6.5. **Extent of inter-regional benefits:** Projects whose benefits extend across the regions, particularly the less developed ones, will be given higher priority over the others.
- 4.6.2.7. All these and other macro and micro policy-based criteria, and also their sub-components if required, will be **applied simultaneously** to the prioritization of public investment projects as well as to the evaluation of sector investment programs. This process requires development and use of **(i) a ranking system** for projects against these criteria, and **(ii) an appropriate weighting system** which assigns different weights to each criterion. The weighted rank of each project will then be calculated and projects ranked by it. Higher ranked projects will have the first claim on budgetary resources (for a detailed example, see Annex 12).

4.7. QUANTITATIVE PRIORITIZATION OF PROJECTS

- 4.7.1. **Policy-based evaluation and prioritization** of public investment projects will be supplemented by **quantitative analysis** in order to ensure that they will attain their objectives through efficient use of public resources. This will be done by prioritizing all “policy-filtered” projects through one or more **cost-benefit or other cost-based techniques** within the resource envelope determined by the public investment ceiling of the LM/Agency that proposes the project. Alternatively, the result of the quantitative analysis could be incorporated in the same ranking and weighting systems used for the policy-based analysis for a policy-cum-cost-based prioritization and selection of the public investment projects (see Annex 12, sample 3).
- 4.7.2. **The purpose of the quantitative analysis** of the policy-filtered public sector projects will be to determine whether they represent worthwhile investments for the country, i.e., whether the results from each project are sufficiently valuable as to warrant the expenditure of scarce public resources. However, as noted above, because of the nature of public sector investment projects, the required analysis cannot be based on the financial cost-benefit study using the market prices, but it must instead be based on the “economic” and/or “social analysis” by using adjusted prices (shadow prices) (Annex 13).
- 4.7.2.1. The primary task of economic analysis is to measure the costs and benefits in terms of a “common yardstick” for: (i) measuring the real value of the project results, and (ii) comparing results across time. In this respect, economic analysis is similar to financial analysis, except that it uses (real) “**shadow prices**” or “**opportunity costs**”

as the common yardstick instead of **(nominal) market prices** used by financial analysis. This is because the objective of economic analysis is to determine the national (social) profitability of a project to judge whether spending scarce resources on a particular project is sensible for the national economy (and the society) as a whole.

- 4.7.2.2. In a world of government involvement in the economy, formal and informal restrictions on labor movement, monopolies, and restrictions/restraints on international flow of goods, services, and capital, market prices often do not reflect real resource costs to the national economy. In addition, private financial profitability does not take into account the project's costs and benefits to others. Hence, the prices of inputs and outputs of a project will have to be adjusted in order to judge its value to the society.
- 4.7.2.3. The key prices to be adjusted include the prices of: labor (**the wage rate**) mainly because of high unemployment in the country, capital (**the interest rate**) owing to government policies encouraging capital goods imports, and domestic versus foreign goods (**the exchange rate**) due to the over-valuation of local currency for the non-oil sectors. In addition, some costs (e.g., pollution, overburdening of public facilities) and particularly most benefits (e.g. education and health benefits) of public sector projects cannot be expressed in monetary market values and therefore cannot be evaluated by financial analysis of projects. Economic analysis, however, will address this issue by including all incremental costs and benefits associated with the project through a "**with project/without project**" approach and by applying shadow prices to them.
- 4.7.2.4. Once economic costs and benefits are calculated as flows over time, it will be a relatively simple matter to calculate the net annual benefit flow and an **internal rate of return (IRR)**. Most financial calculators have programs to calculate an IRR, which is defined as the discount rate that reduces the stream of net benefits to approximately zero. Put differently, IRR is the discount rate that equates the present value of the flow of net operational benefits to that of capital investments flow. A project thus could not be justified on economic grounds if the IRR is below the **opportunity cost of capital**.
- 4.7.2.5. Since all these calculations are naturally imprecise, a **sensitivity analysis** will be performed on the IRR by **varying the critical assumptions** of the project to determine what impact different potential developments would have on the IRR.
- 4.7.3. Where project benefits are largely non-quantifiable (immeasurable), economic analysis will be used to compare the stream of costs of alternative projects (**cost-effectiveness**) in order to determine which project represents a **least-cost solution**. Shadow prices will be used where appropriate in a least-cost analysis. Before designing alternative projects for the same "output target", a **demand analysis** will be undertaken to determine the need for the project's intended output or result.
- 4.7.4. The methods of analysis described so far deal only with economic efficiency criteria, but not with **equity (social) criteria**. The economic analysis should incorporate **income distribution** criteria to the extent possible. In addition, considering GOAZ's emphasis on employment creation, total incremental **employment effects** of the

public investment projects should also be used as a social criterion. Several sources listed in Annex 14 describe how distributional weights can be incorporated in the traditional forms of cost-benefit analysis.

- 4.7.4.1. The objective of social analysis is to **tilt project prioritization and selection in favor of the disadvantaged groups**. To this effect, different weights will be assigned to benefits and costs of a project by socio-economic status of beneficiaries so as to increase chances of lower-income groups and poorer locations to compete for public investment resources. The distributional weights will, by their nature, reflect the GOAZ's (e.g., the political party in power) **political preferences** regarding the socio-economic development of Azerbaijan over the medium- to long-term. It, however, represents two major improvements over the situation without it. First, in the preparation of the PIP, the **arbitrary and discretionary interferences** will be replaced by the officially announced country-wide distributional weights representing the socio-economic platform of the "elected government". Second, the **resource cost of such "social and political preferences"** in terms of net economic benefits lost will be measurable and transparent for the public.
- 4.7.4.2. Undertaking a sound social analysis of a public investment project has two key requirements: First, every project will affect both directly and indirectly different groups in different ways. The increasing concern of GOAZ with reaching the poor and those groups hitherto largely by-passed in the incipient oil-based development process creates a special need to identify the differential socio-economic impact of a public sector project. It is important, therefore, to identify as explicitly as possible **different geographical, functional, communal, and income groups (i)** whom the project intends to help; **(ii)** whom it will adversely affect; and **(iii)** whom it will indirectly affect favorably or adversely.
- 4.7.4.3. The second key requirement for a sound social analysis is the availability of a set of officially calculated or endorsed **shadow prices and distributional weights**, which are also called "**national parameters**" and applicable to all public sector projects. The calculation of such national parameters for Azerbaijan (or any country) is not simple and will require certain technical expertise beyond the current capacity of MOED. The Ministry is planning to develop this capacity at its **Center for Economic Reforms** with TA from the USAID/PIP Project.
- 4.7.4.4. Undertaking a sound social analysis is **very skill-intensive and time consuming**. It should, therefore, be confined to the evaluation of **selected major public sector projects** and programs by the MOED as it would be impractical to apply it to all the PIP projects.

AZERBAIJAN REPUBLIC

MINISTRY OF ECONOMIC DEVELOPMENT

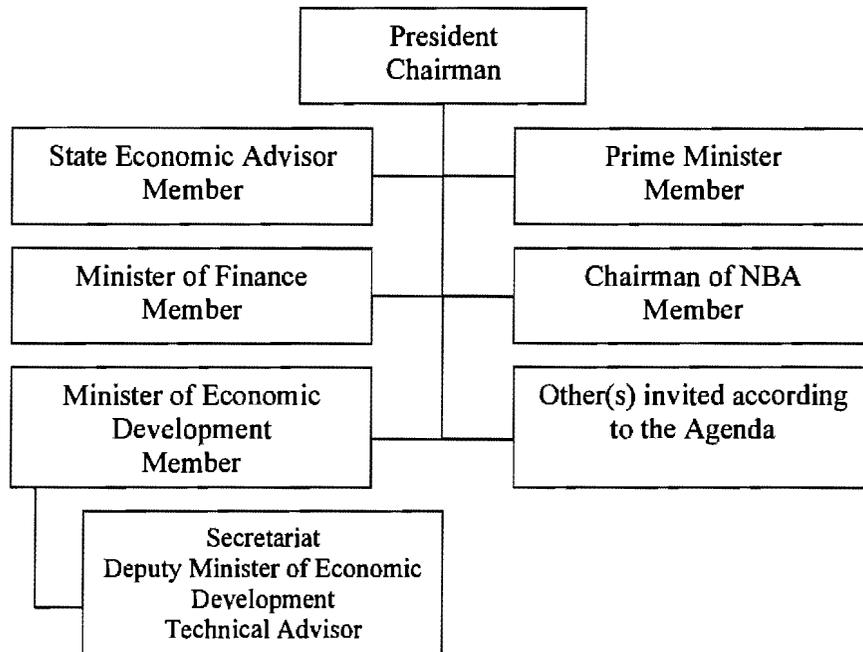
Structure and SOW for a High Policy Planning Council (HPPC)

1. **The Structure of HPPC:** In Azerbaijan, the President alone represents the executive (and administrative) power and shares with the Parliament (the legislative power) the responsibility for governing the country. The President exercises the executive power through a Cabinet of Ministers appointed by him, though the appointment of the Prime Minister (PM), who has mainly a coordination role, is to be approved by the Parliament. Thus, the preparation and execution of all the plan and budget documents are the responsibility of the President, who discharges it with the help of the PM and the Cabinet. Within the Cabinet, the planning work (e.g., SPPRED, SPSEDR, PIP) is led and mainly undertaken by MOED and the budgeting work (MTBF, State Budget, Consolidated Budget) by MOF.
2. These tasks, however, are too wide-ranging and widely cross-cutting in coverage, involving the whole economic and social development spectrum, and too specialized in skill requirements for the whole Cabinet to carry out the guidance, oversight, appraisal, and approval of them as a team¹. Most countries form a special “Cabinet Cluster” to guide, evaluate and screen major planning and budgeting decisions and documents before their final submission to the Cabinet and the President². To this effect, this Manual on PIPP has been prepared on the basis of an assumption that the central economic policy making and coordination in Azerbaijan will be strengthened and facilitated by the establishment of a “**High Policy Planning Council (HPPC) for Economic and Social Development**”.
3. **The HPPC will be established by a Presidential Decree that will also sanction its charter.** The President himself will be its chairman, and its statutory members will include the State Economic Advisor (SEA), the PM, MOED, MOF, and the Chairman of NBA. The President may ask SEA or PM to chair some meetings on his behalf. The chairman may also invite other ministers/agency heads to participate in parts of meetings as he deems necessary depending on the agenda. As secretariat services are to be provided by MOED, the Deputy MOED or Director of EPFD/MOED should also be present as advisor and observer. Participating ministers and agency heads will be accompanied by their advisers, whom may be called upon to present technical information on and justification for their agency’s case. The HPPC meetings will be convened by the President to discuss the issues identified in its charter as they become due for decision as well as on ad hoc basis when he needs its advice. The meeting may last from a few days to a week or even longer depending on the subject(s) of its agenda.

¹ At present, ministers and non-ministerial members of the Cabinet of Ministers in Azerbaijan amount to 38. However, as distinct from the countries with a parliamentary system of government, a Cabinet decision in Azerbaijan is not expected to be signed by all members. For instance, in the case of the draft Budget, about 25 signatures are needed for its submission to the President.

² The World Bank prepared a note (dated June 2005) on “Azerbaijan: Ideas for a Budget Reform Action Plan”, which also suggests the establishment of a “Cabinet sub-structure” for the same purpose as explained above, and briefly refers to the examples of South Africa and Uganda. To these examples Turkey (“Yukse Planlama Kurulu” – High Planning Council—since early 1960s) and the Philippines can be added.

Diagram: Azerbaijan - Proposed Structure of the HPPC



4. **The SOW of the HPPC:** This will be determined by its charter, and may include both advisory and operational tasks. In its advisory capacity, the HPPC will review and evaluate some major economic and social policy decisions and documents, including the JCC, and submit its recommendations to the Cabinet and the President. The HPPC charter may also identify some specific tasks and areas for which it can take operational decisions that can be implemented without approval of the Cabinet or any other body.
5. The main tasks of the HPPC, particularly relating to PIPP, will include the following:
 - Help the Cabinet of Ministers and the President in identifying the policy objectives and strategies for economic and social development of the country;
 - Review and evaluate the plan and budget documents (SPPRED, SPSEDR, PIP, MTBF, State and Consolidated Budgets, Monetary Program) for their quality and compliance with the national objectives and strategies before their submission to the Cabinet and the President;
 - Determine the ground rules and main principles for support of investment and exports; and
 - Review and evaluate every measure and project relating to State Owned Enterprise (SOEs) in the plan documents, including their privatization, and advise the COM on appropriate decision.

AZERBAIJAN REPUBLIC

MINISTRY OF ECONOMIC DEVELOPMENT

Preparing the Medium-Term Macroeconomic Framework (MTMF)

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 for 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 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 begun using a two-prong approach of formal training in modelling and learning-by-doing involving MOED, MOF and NBA staff as explained below.

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

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 Work Plan of the USAID/MOED's Public Investment Policy Project and its two 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.

(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 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 also plans to use 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 also an Excel-based consistency model using national income accounting concepts and identities and developed by the World Bank for country economic analysis. 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 MOED arranged, with the support of the USAID/PIP Project, 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 participants were all strongly interested in the subject and the training delivery was highly successful. There was also a one-week follow up training for the same group by the World Bank Baku Office by using the latest updated version of the Azerbaijan RMSM-X.

12 RMSM-X will, of course, provide both the medium-term macroeconomic and sector framework, which will together form the quantitative framework of the medium-term rolling budget (MTBF) and the PIP. MOED, however, must develop a MTMF for the next year and coming three years by early March of each fiscal year to be used in the preparation of the Budget and PIP Call Circulars. As MOED/EPFD will need some time to become functional in RMSM-X, it will have to prepare MTMF initially by using only the Financial Programming Model (FPM).

Development of MTMF

13 The MOED/EPFD has a tentative plan for the development of MTMF as follows: Six staff members from the Macroeconomic Policy, the PIP and the Fiscal and Monetary Policy Divisions will be identified to work on MTMF, forming a team called "FPM Working Group (FPM/WP)". They will be supplied with the four Sector Account tables (i.e., worksheets) to familiarize themselves with the structure of the model and individual accounts. As these staff members were given the RMSM-X training in Moscow, they are now well prepared for making a rapid progress in developing the 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 last fiscal year (actual) and current fiscal year (preliminary actual).
- Based on the actual data the projections will be made for the medium-term period, for example “the 2008-11 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 will 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.
- Some more favourable and/or downside scenarios will also 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 the medium-term period, including next year and coming three years, 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.

14 The FPM/WG will verify that the last year and expected outcomes for the current year data in the FPM account tables confirm with Government and/or IMF data. In this regards, the report of the Fund’s latest Article IV Mission to Azerbaijan, can also be used to firm up MOED’s tentative data. The FPM/WG will then “program” the four FPM accounts for next medium-term period, 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 next medium-term period corresponding to what used to be prepared for

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

Azerbaijan by the IMF since early 1990s, with one significant difference that the present MTMF will be "Made in Azerbaijan".

15 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), particularly the most recent issues of: 1) Statement by the IMF Mission for the Article IV Consultation with the Republic of Azerbaijan; 2) Republic of Azerbaijan: Ex-Post Assessment of Longer-Term Program Engagement - Staff Report and Public Information Notice on the Executive Board Discussion; 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 5) Azerbaijan Republic: Statistical Appendix ;
- The Economist Intelligence Unit's monthly reports on Azerbaijan;
- Fitch Ratings Azerbaijan;
- NBA information (available on the NBA web site: www.nba.az): 1) Main Directions of the Monetary Policy 2) Report on Implementation of Monetary Policy ; 3) Monthly Bulletins.

16 These will make the FPM/WG adequately informed of the current state of the Azerbaijan economy in general as well as in the fiscal, monetary and external sectors as of the year-end. For getting informed on more recent developments, they are advised to review State Statistical Committee's annual and monthly publications (available on the SSC web site <http://www.azstat.org>), establish monthly data exchange with MOF (fiscal data) and NBA (monetary and BOP data); and to follow the daily and weekly papers and journals.

17 The FPM/WG will then pull together their work on sector accounts, both the worksheets and the economists' write-ups, and discuss the interactions between the fiscal and budgetary policies and the macroeconomic growth and stability, with particular emphasis on the monetary and external sectors. MOED should interact 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 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 SPPRSD and its Annual Progress Reports; discussions with the IMF, World Bank, and other donor agencies; and the government presentations to the international forums.

18 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 theme 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

19 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 the purpose.
- 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).

AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT
Preparation of Sector Strategic Development Plans (SSDP)

PART I: IMPORTANCE OF SSDP

The Government's public investment policy and program (PIPP) is to be guided by the country's national and sectoral development objectives and strategies. The importance of the strategic macro-planning for the PIPP process was addressed in Section 2.1 and Annexes 1 and 2 of this Manual. This annex briefly explains how to optimize the contribution of Sector Strategic Development Plans (SSDPs) to the most efficient use of public resources through PIPP.

PLANNING IN STAGES

Development planning is a three-stage exercise: Macro-, sector-, and projects-planning stages. Annex

All government investment activities are realized through the projects planning stage, which brings together all government/budgetary agencies' capital spending proposals for the plan period (bottom-up planning). Individual agencies' proposals will, however, be guided and constrained by the Central Government (top-down planning) in order to ensure that:

- Their total requirements for critical resources (e.g., funding, skilled labor, foreign currency, etc) remain within the national (feasible) availability of such resources;
- The envisaged growth pattern satisfy necessary technical inter-linkages among sectors; and,
- The implied pattern of structural development and income distribution will conform to aspirations of the people as perceived by the Government (i.e., the political party in power).

Such guidance and constraints to be determined by the Central Government will require substantial technical work by the MOED, MOF, NBA and other agencies. This work is to be done at the macro-planning stage, where the Central Government will determine both national and sectoral development objectives, strategies, and sectoral resource ceilings within a socio-economic consistency framework. It is important that this process has adequate built-in mechanisms to avoid its becoming a top-down "command" exercise and to allow a reconciliation of top-down and bottom-up planning processes. Such reconciliation is attained through SSDP, which serves as a two-way bridge between Macro- and Projects Planning stages.

CONDITIONS FOR SUCCESSFUL SECTOR PLANNING

SSDP will be a useful and effective policy and implementation tool if the following conditions are fulfilled:

- **A correct assessment of the sector's current resources, capabilities, and limitations;**
- **The Agency's mission and vision over the plan period vis-a-vis the national and sectoral objectives stated by the Central Government;**
- **The Agency's goals defined ambitiously but realistically so as to carry out its mission and attain its vision;**

- Time-bound and measurable targets to realize the Agency's goals over the plan period;
- All activities and projects properly costed, prioritized, sequenced, and assigned.
- Appropriate consultations by the Agency with all its stakeholders.
- All activities and projects envisaged by the SSDP be fully considered allowed for in the Government's MTMF/MTFF for the corresponding period if the SSDP is to be a meaningful (i.e., operational) document rather than a wish-list.
- The Agency's SSDP and overall budget (recurrent plus capital) could also contain an alternative scenario to provide the Central Ministries with a better insight as to the sector's needs and its stakeholders' aspirations.
- Finally, appropriate performance benchmarks and measurements for Monitoring and Evaluation to render SSDP an effective tool for implementation and future planning.

The second part of this annex gives a **Guide for Sector Strategic Development Planning**, which provides a description of all elements of the sectoral planning process without distinguishing between crucial and routine ones. The following is intended, therefore, to "guide" MOED and line agencies' staff not to miss the crucial issues while using the Guide for SSDP.

RECOMMENDATIONS TO LINE MINISTRIES

Almost all line ministries in Azerbaijan have at least one, and some several, Sector Development Plan (*SDP*) extending over 10 to 20 years and with varying coverage and sophistication. The Government objective of establishing the necessary capacity to formulate a sound public investment policy and program very much depends on adapting the current practice of sectoral planning to that envisaged by the Guide for SSDP given below. More specifically, such an adaptation will particularly involve the following:

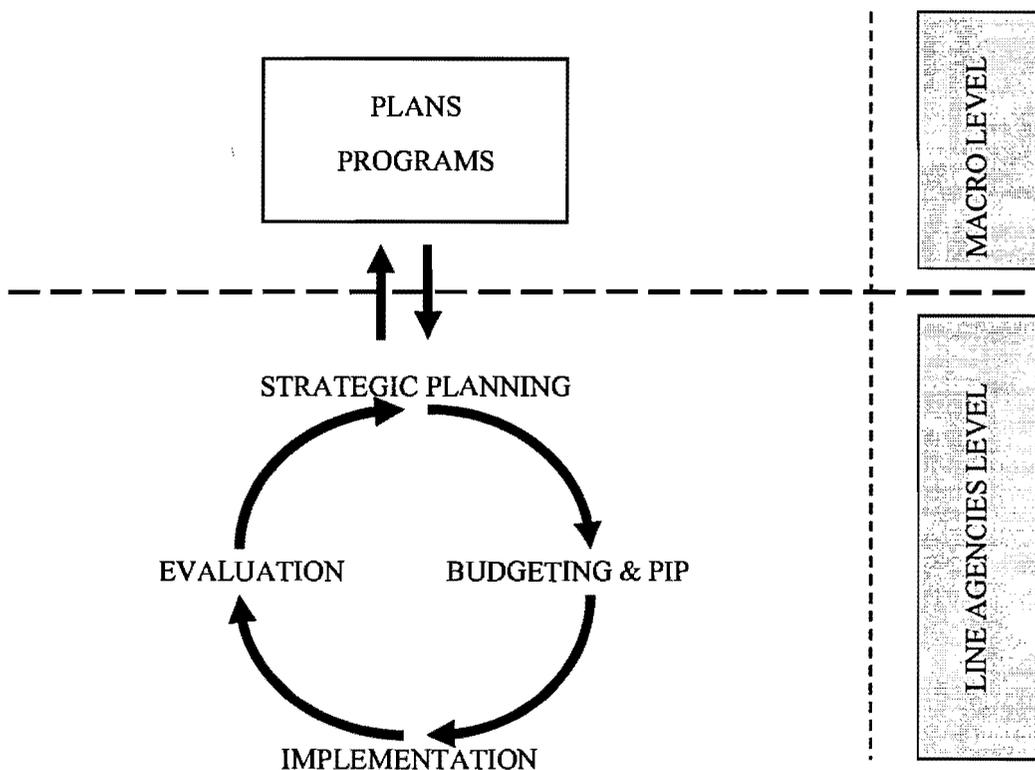
1. Observe the guidance and instructions from the President or the COM regarding the national and sectoral development objectives, strategies and resource ceilings;
2. Have sector "Goals – Targets – Activities and Projects" linked to each other within a result-oriented logical process, which will pave the way for program budgeting;
3. Identify all planned activities and projects of the sector agency in annual terms (at least for the next four years of the plan period) as the same as those submitted for the Medium-Term Budget and PIP purposes (both recurrent and capital spending). Hence, there is no need for separate costing of SSDP activities and projects.
4. Send all draft SSDPs first to MOED and MOF for checking and ensuring their consistency, both in policy and technical terms, with the economy's macro and sectoral development framework over the plan period.
5. In the planning process, the role of the COM and the President's Office is focused on (a) setting the broad national and sectoral objectives and strategies, and (b) approval of the final plan.

PART II: GUIDE FOR PREPARATION OF SSDP

PURPOSE

- SSDPs will help the allocation of scarce public resources to priority areas in line with macro, sectoral and regional objectives and strategies.
- SSDP serves as a two-way bridge between macro- and micro (projects)-planning
- It will also serve as a main reference source to the Agency staff as well as to all stakeholders for information on the sector's current and medium-term development prospects.

Diagram 1: Strategic Planning – Macro Planning Relationship



STRATEGIC SECTOR PLANNING CYCLE

Strategic Planning Process

1. STATE THE AGENCY'S MISSION AND PRINCIPLES
 - The Agency's main mission (the main reason for its existence)
 - Its key principles

2. IDENTIFY THE AGENCY'S VISION: Where does the Agency/Sector want to go? What is it aiming at?
3. ANALYZE THE CURRENT STATUS: Where is the Agency/Sector at present?
 - Target population and its demands
 - Current sector plan and programs
 - SWOT analysis
4. IDENTIFY STRATEGIC GOALS AND TARGETS
 - Medium-term goals
 - Specific, concrete and measurable targets
5. DETERMINE REQUIRED TASKS/ACTIVITIES AND PROJECTS: How to reach where the Agency wants to get?
 - Approaches/means to attain goals and targets
 - Detailed work/business plans
 - Costing
6. DETERMINE THE MONITORING SYSTEM: How to measure and evaluate progress?
 - Reviewing and reporting
 - Comparison with (4) above
7. EVALUATION AND PERFORMANCE MEASUREMENT
 - Feedback
 - Identify measurement methods
 - Performance indicators
 - Performance measurement

Strategic Planning: What is it about?

- aims at **planning development** in desired directions, with periodic revisions as needed;
- **result-oriented** instead of input-oriented;
- targets and approaches must be **realistic and feasible**;
- an **instrument for high quality management**;
- a **tool for accountability**;
- based on a **participatory approach**, involving all concerned staff of the Agency as well as the representatives of all stakeholders of the Agency's services; and,
- guides and directs the annual budget, rather than the other way round, within the bounds of resource constraint and national and sectoral development objectives and strategies.

The Planning Team:

- should include representatives of all key departments of the Agency;
- team members should have such knowledge and skills as necessary for the strategic planning process;
- team members should have adequate knowledge of the Agency and the sector;

- they should be adequately familiar with the target population of the Agency; and,
- should be able to devote the necessary time and effort to strategic planning work.

MISSION STATEMENT

An Agency's "mission" is the reason for its existence: it states what, how, and for whom the Agency does whatever it is doing.

A meaningful mission statement should address the following points:

- What is the reason for Agency's existence? State the purpose, but not the process to attain it.
- What are the Agency's statutory responsibilities and obligations?
- Who is the audience/target population for the Agency's services and outputs?
- Which needs does the Agency meet? Identify the Agency's services and outputs.
- The mission statement should be succinct (i.e., brief, clear and to the point).

An example of meaningful mission statement by a "Social Services Unit": To help individuals and families in meeting their basic needs and in becoming self-sustainable as envisaged in the relevant statutory framework. (Why meaningful? Because it indicates the task, the target population for the output/services, and the legal constraint).

AGENCY'S VISION

The Agency vision symbolizes its future, and powerfully states what it aspires to achieve in the future. It should answer and/or satisfy the following points:

- It must be brief, inspiring and challenging;
- What is the ideal future for the Agency?
- How does it want to be perceived by all its employees, target population and other stakeholders?

An example of good vision statement by a bank: To become a financial institution having the largest network and providing the best service throughout the country.

Both the mission and vision of the Agency are based on certain principles that should answer the following questions:

- What is the Agency's work/business philosophy?
- What are the basic value systems, standards and ideals which serve as the foundation of the Agency's operations?
- What are the systems of values and beliefs subscribed to by the employees of the Agency?

Two examples of such "principles" are given below:

Principle: Participation, transparency and equal opportunity are essential elements of our decision making process.

Principle: We cannot compromise on the quality of our services and outputs.

ANALYSIS OF THE AGENCY'S CURRENT STATUS

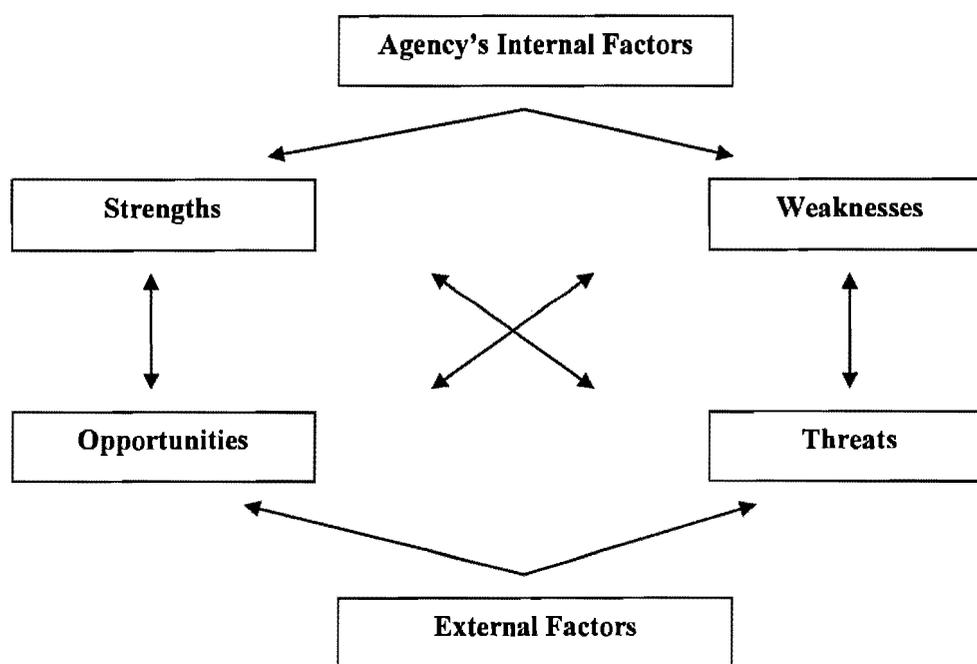
Coverage

- A brief history of the Agency and its sector's recent performance and policies;
- Analysis of the Agency/sector's structure and organization (its statutory powers_and responsibilities; performance; problems; technologies; potentials; human resources; institutional culture, etc.);
- Analysis of the external environment where the Agency operates;
- Analysis of the future developments that may affect the Agency/sector; and,
- Analysis of the stakeholders (the target population and others that may be affected positively or otherwise by the Agency's activities).

Methodology

The current state of the Agency/sector can be evaluated through the SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis.

Diagram 2: SWOT Analysis



Analysis of Internal Factors:

- Agency's recent history, related statutory/legal framework, and statutory functions;
- Its place in the Public Administration and organizational structure;
- Agency's internal information and decision making process;
- Size and quality of its workforce;
- Its funding sources (Budget, other official funds, banks, etc.);
- Its personnel and wage policies;
- Employees' motivation level and their views on the Agency's current status and prospects;
- Its technological/information technology capacity and skills level;
- Its inventory of buildings, vehicles and other assets;
- The reporting system used in the Agency;

- Its monitoring and evaluation system;
- Important activities and projects, both completed and ongoing;
- Recent changes in the Agency's organization structure and operational areas;
- Important changes envisaged in the structure and operations of the Agency; and,
- Other Agencies undertaking the same or similar functions and causing clash of responsibilities.

Analysis of External Factors:

- World situation and development trends in the area the Agency operates;
- Current domestic situation and trends in the area the Agency operates;
- The critical development prospects, at home and abroad, that may affect the Agency;
- Harmony and consistency between the Agency's activities and the objectives, strategies and policies of the national, sectoral, and regional development plans;
- Main operational risks and uncertainties faced by the Agency.

Analysis of the Target Population and Other Stakeholders' Satisfaction:

- Agency's suppliers/creditors;
- Other institutions the Agency should cooperate with to carry out its operations;
- Target population/institutions and their demands from the Agency;
- Monitoring and measurement of satisfaction of the target population and institutions; and,
- Methods of evaluation of comments and complaints by the stakeholders.

Assumptions:

While preparing SSDP, Agency has to make **assumptions** about certain internal and external factors (as listed above), which are important for the success of the SSDP but are outside the Agency's control. Any SSDP's success greatly depends on the realization of its assumptions. They should therefore be decided through a thorough review of all relevant factors with the participation of all key Agency staff.

STRATEGIC GOALS

- Agency's goals must be consistent with its mission, vision and principles;
- should contribute to and facilitate the realization of the Agency's mission;
- must be ambitious and challenging, but also realistic and feasible;
- should be appropriate for attaining Agency's vision;
- must be shaped according to the Agency's priorities and the analysis of its current situation;
- should have a medium-term perspective; and,
- must be kept unchanged until important external developments take place.

An example of well-defined strategic goal: *In order to protect health of the society, the whole country will be provided with clean and adequate supply of water with the help of environment protection and pollution control (Why is it well-defined? The goal is clearly identified; its coverage is stated; it is linked to water quality and supply, which are in turn related to environment and pollution. Thus, a direction is given for identifying targets).*

TARGETS

Targets are specific, measurable, and time-bound "sub-goals" aiming at the realization of Agency's strategic goals. Hence, they are:

- ambitious but feasible;
- result-oriented;
- measurable;

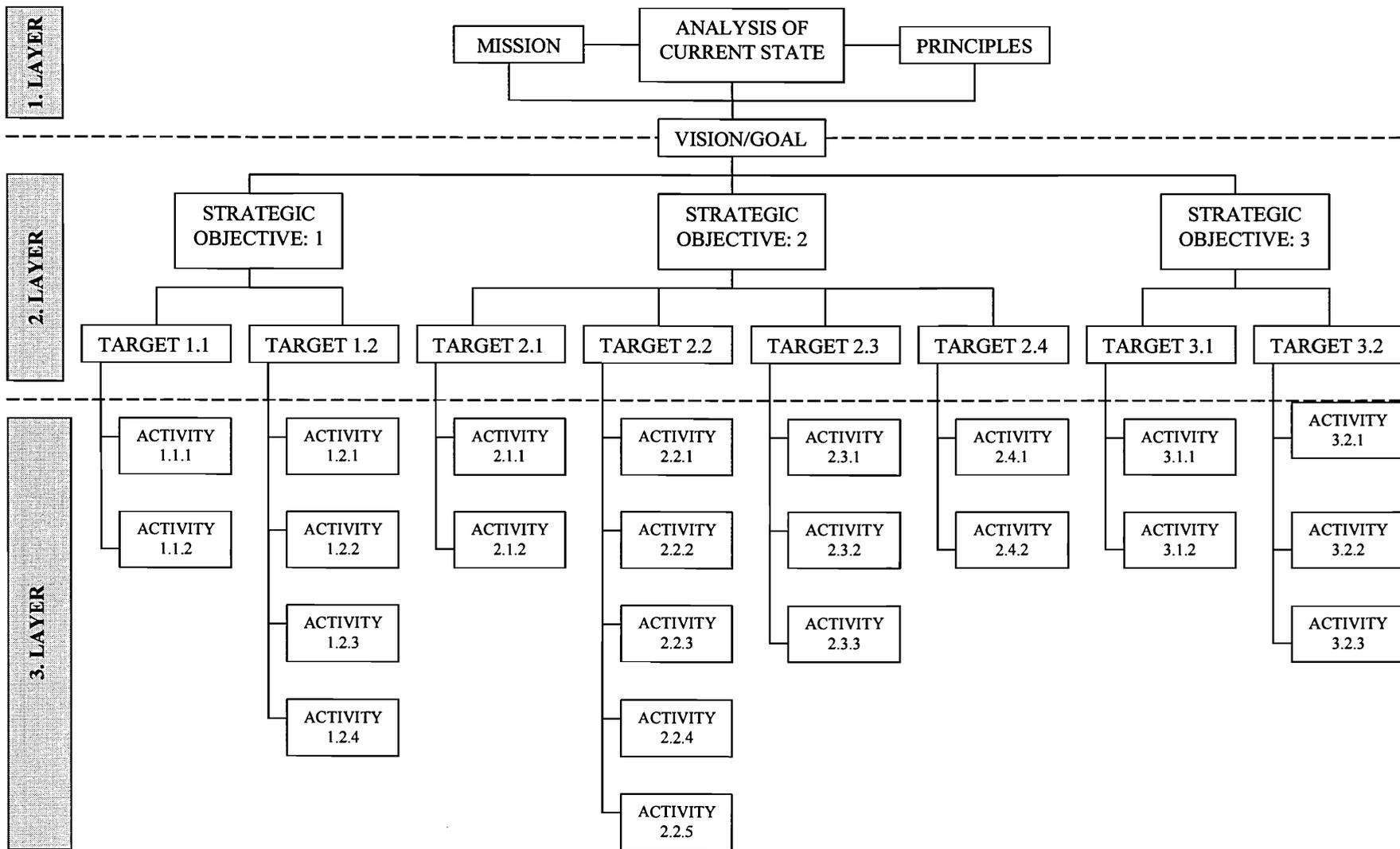
- time-bound; and,
- stated clearly and understandably.

An example of well-identified target: *The infant mortality rate will be reduced by 0.5 percent by 2007 (Why is it well-identified? Target is specific, time-bound, and can be evaluated if feasible or not by checking it against the recent years' performance).*

REQUIRED ACTIVITIES AND PROJECTS

- SSDP should explain in detail all activities and projects needed to attain the Agency's targets and goals;
- Prioritize all targets under each strategic goal;
- Identify the departments/units responsible with implementation of each task;
- Prioritize all activities and projects under each target by considering:
 - Development plans (SPPRED and RDP);
 - Annual performance reviews and programs of SPPRED and RDP;
 - Other comprehensive government programs (e.g., LOIs given to the IMF);
 - Special government programs (e.g., President's Anti-Inflation Decree);
 - Activity/project's sustainability;
 - Effectiveness;
 - Rate of return and/or efficiency.
- Interactions and linkages among activities/projects should be paid the necessary attention for rightly placing and sequencing them;
- Activities/projects should not clash with each other;
- Selection of activities/projects should be made with a view to medium- to long-term expectations; and,
- Necessary coordination with other agencies should be secured in the case of activities/projects requiring such coordination.

Diagram 3: Structure of Strategic Planning



SSDP – BUDGET /PIP RELATIONSHIP

- Agencies should base their budgets and PIPs on their SSDPs, not the other way around, within the resource and other constraints;
- SSDPs will pave the way to “program budgeting”:
 - Strategic goals/objectives correspond to programs;
 - Targets correspond to sub-programs; and,
 - Tasks (activities/projects) in a SSDP are the same as activities and projects in the program budget.
- SSDP should relate its activities/projects under each target to the State Budget and the PIP:
 - Agency should present its resources (by source) and uses (by targets/sub-programs) for last two years and next three years;
 - This will show the cost of each policy and program;
 - By discussing alternative activities/projects, Agency will show the basis of its prioritization;
- SSDP’s annual programs or their annualized medium-term segments will better help to establish their linkage with the State Budget and the PIP.

MONITORING AND EVALUATION (M&E)

- Monitoring means systematic following up and reporting on the progress in realizing the targets of SSDP;
- Evaluation means both discussing implementation results against strategic goals and targets and analyzing the consistency and appropriateness of the latter;
- The general approach and methodology to be used for monitoring and evaluation are to be identified in SSDP;
- Implementation results are reported annually and their evaluation in terms of timing and conformity with planned goals and targets provides useful feedbacks for reviewing SSDP and determining its feasibility.
- M&E contributes to the establishment of accountability in the Agency.

A separate guide is needed for M&E.

AZERBAIJAN REPUBLIC

MINISTRY OF ECONOMIC DEVELOPMENT

The Call Circular for the 2007-10 Public Investment Program

PART I: Explanatory notes on Preparation of Required Information

1. National, sectoral, regional and inter-project priorities of 2007-2010 PIP

This year Ministry of Economic Development is planning to further improve PIP and use it as an effective policy instrument for identifying and achieving National and Sectoral development goals and priorities for 2007-2010. To this end, all state enterprises are requested to submit following:

- Information on **all** capital investment expenditure requests for 2007-2010, irrespective of their funding sources (Template 1 part 2, Template 2);
- **Justification** of a request pursuant to medium and long term state development goals and priorities (Template 1 part 5);
- Copy of feasibility study for each project, if not submitted to MOED up to now;
- Copy of each project's approved cost estimate documents, if not submitted to MOED up to now;
- Copies of experts' opinion for each project.

Attached templates are expected to assist in preparation of submissions. In the event where the abovementioned information on projects is not presented, they **will not be considered** for inclusion in 2007-2010 Public Investment Program.

Submitted projects should be justified in accordance with following national, sectoral, regional priorities:

National Priorities for 2007-2010 Public Investment Policy and Program: in accordance with approved and pending National Programs GoAz considers advisable to direct investment to following spheres in 2007-2010:

- Projects supporting social sectors' development,
- Infrastructure projects supporting non-oil sector and fostering private sector investments,
- Regional and cross-regional projects eliminating inter-regional social-economic inequality,
- Projects creating new work places (fostering employment).

GoAz also is trying to pertain from investment in commercial sectors, attempting to attract private investors to such.

Cross sector priorities: 2007-2010 Public Investment Program will give preference to projects in following sectors:

- Education
- Health
- Infrastructure

- Irrigation

At the same time each sector should submit, with proper justification, five priority regions of Azerbaijan to the Ministry of Economic Development.

Priorities for pending projects: 2007-2010 Public Investment Program shall give preference to project particularly meeting following criteria:

- Project to be completed or which are close to completion (i.e. projects completed by 75% or more) in 2007;
- Project completed by 50%-75% or those meeting the abovementioned national, sectoral and regional priorities;
- Projects considered essential for implementation of other pending projects supporting above national, sectoral and regional priorities.

New public investment projects: New projects shall be selected to 2007-2010 Public Investment Program based on their technical, financial and economic analyses among those meeting national, sectoral and regional priorities.

2. Macroeconomic indicators used in public investment project assessment

Indicator	Measure unit	2006 expected	2007 forecast	2008 forecast	2009 forecast	2010 forecast
Nominal GDP	Mln. New AZM					
Actual GDP increase	%					
GDP deflator	%					
Average annual exchange rate	New AZM/US dollar					
Discount rate *	Annual %	12	12	12	12	12
Consumer rate index	Annual % variation/change					

*Rate used by the World Bank and ADB for projects funded in Azerbaijan.

3. Explanation regarding Template 1 (Public Investment Project Assessment)

<u>External Funding</u> Annual Disbursement scheduled by the Funding Agreement	Give the yearly disbursement plan if there is such a plan in the agreement. Otherwise, state the disbursement conditions given in the funding agreement.
Annual Utilization	Give the actual total utilization by the end of 2005 and the expected annual utilization in 2006 and beyond.
<u>Project Analysis:</u> Main objectives and anticipated results, outcome	The Project's expected contribution to Azerbaijan's development may have already been discussed in the Sector Development Program, and the Project's Feasibility and Appraisal Reports. If such reports do not exist or do not discuss all the required indicators, please provide your best estimates and comments on the listed indicators.
Project's Status	Indicate at what stage of the project cycle is the Project in. The project cycle is composed of the current following stages:

Project Analysis: Indicators

Net Present Value (NPV) is calculated through the formula:

$$\sum_{t=0}^T (B_t - C_t) \frac{1}{(1+i)^t}$$

where B and C represent the Project's benefits and costs, respectively, in a given year (t) during a period of a number of years (T=0.....n), equal to the project's construction time

plus its economic life. "i" represents the discount rate used in transforming the future benefits and costs to their present equivalent values.

Internal Rate of Return (IRR) is the particular rate of discount that equates the present value of the flow of net benefits during the

economic life of the project to the present value of the total investment costs. It is calculated through the formula:

$$\sum_{t=0}^T \frac{B_t - C_t}{(1+r)^t} = \sum_{t=0}^T \frac{K_t}{(1+r)^t}$$

where Kt represents investments in year and r the particular rate of discount (IRR) under which the equation holds true.

Cost effectiveness aims at identifying the least cost alternative among a number of projects that will all produce the same outcome.

Conversion ratio

Other

Financial/Economic Analysis: the above named indicators of the results of

project analysis can be calculated by using market prices (financial

analysis) or economic prices (economic analysis). It will be preferable

to have calculated through both financial and economic analysis.

PART II: Required Information

..... Sector

Information on the Sector and Public Investment in the Sector

1. SECTOR OVERVIEW AND INFORMATION ON MAJOR PARTICIPANTS

- 1.1. Sector overview and the role of the sector in country's economic development;
- 1.2. Sector structure and major organization;
- 1.3. Sector's major goals and objectives and their linkage with SPPRED, RDP (2004-2008) and other State Programs;
- 1.4. Main government activities and service in the sector, and actual increase in their indicators for 2000-2005.

2. MAJOR IMPLEMENTED AND EXPECTED REFORMS AND EXISTING PROBLEMS AND EXPECTED REFORMS

3. MEDIUM TERM (2007-2010) SECTOR GOALS AND STRATEGIES AND INVESTMENT PROJECTS PROPOSED FOR ACHIEVING THESE GOALS:

Sector/sub-sector/goal	Strategies/activities	Investment projects	Required funding				Outcome/results
			total	2007	2008	2009	

4. USE OF PUBLIC INVESTMENT

- 4.1. sources and uses of investment funds attracted from external sources for 2000-2006 (according to Template 1.3);
- 4.2. Volume of investment expenditure from state budget to the sector for 2000-2006;
- 4.3. Sector's funding priorities and major funding sources of public investment (for 2000-2006);
- 4.4. final minutes and agreements of tenders held in 2005-2006;
- 4.5. list of crucial state projects suspended in past years (if any), their list, reasons for suspension and percent implemented:

Project name	Total project cost	Amount paid	Resources needed for completion	Reasons for suspending implementation

PUBLIC INVESTMENT PROJECTS EVALUATION FORM

2.1 Project background information

Sector					
Agency					
Name					
Number					
Location					
Inception/Completion date	<u>Start:</u>		<u>End:</u>		
Goods/services					
Capacity					
Project staff responsible for following: -Preparation -Approval -Contact person	<u>Name:</u>	<u>Position:</u>	<u>Telephone</u>	<u>Email:</u>	<u>Date:</u>
Priority level of the project	<u>1. Urgent</u>	<u>2. Necessary</u>	<u>3. Required</u>	<u>Priority justification:</u>	

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.2 Funding projection for 2007-2010 by sources (capital expenditure/investment demand)

(AZN)

Funding source	Total project cost	Actual Payment amount by end 2005	2006 approved/ identified amount	2007 estimate	2008 estimate	2009 estimate	2010 estimate
State budget							
Own funds							
Foreign loan							
Other*							
Total							
Exchange rate of AZN/USD							

* If any, other funding sources of the project (e.g. internal bank loan, grant) should be indicated in detail.

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.3 Foreign funding projection of the project for 2007-2010

(USD)

Country/Institution Providing External Funding*							
Date of Effectiveness							
Type (Grant, Loan, Equity)							
Total Amount							
Repayment/Grace Period							
Interest Rate							
Annual amount payable per funding agreement	<u>Cumulative</u>	As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding							
Annual utilization	<u>Cumulative</u>	<u>Used as of 2005</u>	<u>2006-expected</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding							
Average annual exchange rate of other foreign currency received in relation with US dollar**		As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>

* If there is more than one external funding please fill in additional parts of this form.

** Please fill for funds received in foreign currency other than US dollar (euro, japanese yen)

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.4 Pending/recurring project implementation report

(Current/Project price)

YEAR*	Planned resources			PIP approved resources			Revised PIP appropriation			Actual paid amount under PIP			Actual project costs			Realization %**
	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	
2000																
2001																
2002																
2003																
2004																
2005																
2006 (expected)																
TOTAL																

*Please add rows if necessary

** Realization (%) = (Actual project expenditure/Planned project resources) X 100

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.5 Project justification and analysis summary

<p>Strategic Context of Project*</p>	<ul style="list-style-type: none"> -Linkages/relations to SSDP, SPPRSD and SPSEDR; -Contribution to Production in non-oil sectors; -Contribution to Employment in non-oil sectors; -Contribution to new technology; -Environmental impact and related investment; -Economic Life of the Project.
<p>Project's Current Status *</p>	
<p>Current and Anticipated Issues, Problems and Proposed Measures*</p>	
<p>Major project analysis indicators**</p>	<ul style="list-style-type: none"> -Net Present Value (NPV) <u>Financial</u> -Internal Rate of Return (IRR) <u>Economic</u> -Cost effectiveness analysis (particularly, for social sector projects)

* Please expand the row as much as needed

**Submit the supporting documentation

TEMPLATE 3

Information on Capital Expenditure and Intangible Asset Purchase Items of State Budget for 2006-2010*

SECTOR:

AGENCY:

at prices

ACTIVITY OVERVIEW (annual)	BUDGET FUNDED	EXPECTED OUTCOME
2000 (implementation)		
2001 (implementation)		
2002 (implementation)		
2003 (implementation)		
2004 (implementation)		
2005 (implementation)		
2006 (EXPECTED)		
2007 (projection)		
2008 (projection)		
2009 (projection)		
2010 (projection)		

* This table should include information on expenditure related to items 282200 and 310000 of "Economic Classification of Budget Expenditure" under Single/Unified Budget Classification

AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT
PUBLIC SECTOR BALANCE OF RESOURCES AND USES

		CENTRAL AND LOCAL GOVERNMENTS					STATE-OWNED ENTERPRISES					TOTAL
		State Budget	Social Protection Fund	SOFAZ	Municipals	Sub-total	Operational	Financial	Sub-total	Privatization	Sub-total	
1	Taxes											
1a	Direct											
1b	Indirect											
2	Non-tax											
3	Factor Income											
4	Social Funds											
5	Current Transfers											
I	PUBLIC SECTOR DISPOSABLE INCOME											
II	CURRENT EXPENDITURES											
III	PUBLIC SAVINGS											
IV	INVESTMENTS											
a	Fixed capital											
b	Stock changes											
V	SAVINGS-INVESTMENT GAP											
VI	CAPITAL TRANSFERS											
a	Wealth taxes											
b	Other capital transfers											
c	Nationalization and revaluations											
VII	CASH-BANK/BORROWING											
a	Change in cash-bank											
b	Net foreign borrowing											
	* Foreign debt repayment											
	*Foreign loan utilization											
c	Net domestic borrowing											

AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT

Public Investment Program for 20...-

ANNOTATED OUTLINE

INTRODUCTION

The expected rapid increase in Azerbaijan's oil revenue augments the importance of necessary improvements in the institutional and technical capacity of the GOAz to formulate sound public investment policies and programs (PIPP). The issue has in fact additional urgency because of the fact that Azerbaijan's oil boom is expected to be relatively short lived. The Government has therefore adopted this PIPP Manual from (day/month) 2007 to strengthen the key economic ministries' as well as the major line ministries' capacities for preparing sound public investment policies and projects.

With LMs/agencies' submission of improved sector information and better justified investment projects spending proposals in line with the requirements of this Manual, MOED is expected, with the cooperation of MOF and ANB, to develop a sound public investment policy for the medium-term (next four years) that will be reflected in the next Public Investment Program with the following outline.

ECONOMIC POLICIES AND REFORMS

This chapter will present a review of recent performance of the Azerbaijan economy under the following headings with a view to providing a background to justify (or lead to) the proposed PIPP for 20...-. Therefore, **focus on selected factors which are important for investment in general and for PIPP in particular.**

Recent Economic Developments

Macroeconomic Policies

Structural Reforms and Policies

DEVELOPMENT OBJECTIVES AND STRATEGIES

GOAZ aims at identifying the **proper public investment strategy** for attaining the country's medium- and long-term economic and social **development objectives**. In order to be a meaningful (i.e., operationally useful) guide and policy instrument for the central and line ministries (agencies), this **strategy should be quite specific** in terms of investment volume; annual increase; sectoral allocation; public-private breakdown; technological, skill and manpower requirements; foreign exchange and import requirements, etc. Such specificity, however, will require that **development objectives and strategies be also identified, both at national and sector level, in time-bound and measurable terms** (e.g., a specific

External Financing of Public Investment

The 20 PIP

Size, Distribution and Financing of PIP

Some Major Issues of Implementation

**AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT**

PUBLIC INVESTMENT PROJECT BRIEF

1. Project Background Information

Project #

Sector						
Agency						
Name						
Number						
Location						
Inception/Completion date	<u>Start:</u> _____ <u>End:</u> _____					
Goods/services						
Capacity						
Project staff responsible for following: -Preparation -Approval -Contact person	<table style="width: 100%; border: none;"> <tr> <td style="text-align: center;"><u>Name:</u></td> <td style="text-align: center;"><u>Position:</u></td> <td style="text-align: center;"><u>Telephone</u></td> <td style="text-align: center;"><u>Email:</u></td> <td style="text-align: center;"><u>Date:</u></td> </tr> </table>	<u>Name:</u>	<u>Position:</u>	<u>Telephone</u>	<u>Email:</u>	<u>Date:</u>
<u>Name:</u>	<u>Position:</u>	<u>Telephone</u>	<u>Email:</u>	<u>Date:</u>		
Priority level of the project	<table style="width: 100%; border: none;"> <tr> <td style="text-align: center;"><u>1. Urgent</u></td> <td style="text-align: center;"><u>2. Necessary</u></td> <td style="text-align: center;"><u>3. Required</u></td> <td style="text-align: right;"><u>Priority justification:</u></td> </tr> </table>	<u>1. Urgent</u>	<u>2. Necessary</u>	<u>3. Required</u>	<u>Priority justification:</u>	
<u>1. Urgent</u>	<u>2. Necessary</u>	<u>3. Required</u>	<u>Priority justification:</u>			

PUBLIC INVESTMENT PROJECT BRIEF

2. Funding Projection by Source

Project #

(AZN)

Funding source	Total project cost	Actual amount paid by end-20.. last year	20 .. expected amount current year	20 .. estimate	20 .. estimate	20 .. estimate	20 .. estimate
State budget							
Own funds							
Foreign loan							
Other*							
Total							
Exchange rate of AZN/USD							

* If any, other funding sources of the project (e.g. internal bank loan, grant) should be indicated in detail.

PUBLIC INVESTMENT PROJECT BRIEF

3. Foreign Funding of the Project

Project #	(USD)
Country/Institution Providing External Funding*	
Date of Effectiveness	
Type (Grant, Loan, Equity)	
Total Amount	
Repayment/Grace Period	
Interest Rate	
	<u>Cumulative</u> As of <u>20..</u> <u>20..</u> <u>20..</u> <u>20..</u> <u>20..</u> <u>20..</u>
Payable per Funding Agreement (Total)	
GoAz's share	
Foreign funding	
Annual utilization	
GoAz's share	
Foreign funding	
Average exchange rate of forex received to US\$**	

* If there is more than one external funding please fill in additional parts of this form.

** Please fill for funds received in foreign currency other than US dollar (euro, japanese yen)

PUBLIC INVESTMENT PROJECT BRIEF

4. On-going Project Implementation Report

Project #

(AZN Current/Project price)

YEAR*	Planned resources			PIP approved resources			Revised PIP appropriation			Actual paid amount under PIP			Actual project costs			Realization %**
	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	
20..																
20..																
20..																
20..																
20..																
20..																
20.. Current Year (expected)																
TOTAL																

*Please add rows if necessary

** Realization (%) = (Actual project expenditure/Planned project resources) X 100

PUBLIC INVESTMENT PROJECT BRIEF

5. Project Justification and Analysis Summary

Project #

Strategic Context of Project*	<ul style="list-style-type: none"> -Linkages/relations to SSDP, SPPRSD and SPSEDR; -Contribution to production in non-oil sectors; -Contribution to employment in non-oil sectors; -Contribution to new technology; -Environmental impact and related investment; -Economic life of the project.
Project's Current Status *	
Current and Anticipated Issues, Problems and Proposed Measures*	
Major project analysis indicators**	<ul style="list-style-type: none"> -Net Present Value (NPV) <u>Financial</u> -Internal Rate of Return (IRR) <u>Economic</u> -Cost effectiveness analysis (particularly, for social sector projects)

* Please expand the row as much as needed

**Submit the supporting documentation

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**Project Concept Paper
(Template)**

Any line ministry (LM) or a State agency which is planning to pursue a certain project idea should prepare a Project Concept Paper for the initial review and evaluation of it by first the management of the LM/agency and then by MOED and MOF. Submission of a Project Concept Paper does not imply any guarantee of its acceptance, but it guarantees the inception of the project development process for the underlying project idea.

A Project Concept Paper should contain at least the following:

1. Cover Page / Introduction:

- a) Name and address of LM/agency;
- b) Type of agency (e.g., LM, State Committee, SOE) and sector;
- c) Other organizations which may be involved in the project and/or its funding;
- d) Contact person, his position, phone number, and e-mail address; and
- e) Signature of the authorized official.

2. Technical Information:

- a) Concise title and objective of proposed project;
- b) Discussion of the:
 - Objectives;
 - Methods of approach;
 - Amount of effort (labor) to be employed;
 - Anticipated results and beneficiaries;
 - How the work will contribute to sustainable development in the sector;
- c) Type of support needed (other than funding).

3. Supporting Information:

- a) Proposed estimated cost;
- b) Brief cost breakdown;
- c) Any proposed cost sharing;
- d) Proposed duration of project;
- e) Brief description of the LM/agency's previous experience with the same and/or similar types of proposed project.

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Template for a Project Pre-Feasibility Study

- 1. Executive summary:** discuss all the main information on the project and the main findings of the pre-feasibility study.
- 2. Introduction:** purpose of the study; its coverage and structure; how the study was conducted; summary findings; conclusions and recommendations.
- 3. Description and Coverage:** name; purpose; type; technical direction; size; implementation period; location and place; expected outcomes; main inputs; target stakeholder, population, and regions; responsible organization and its statute; implementing/operating agency.
- 4. Project background:**
 - a) Social and economic situation (general, sectoral and/or regional)
 - b) Sectoral and/or regional development policies and programs
 - c) Institutional structure and legislative environment
 - d) Origin of the project idea and its appropriateness
 - Justification based on sectoral and regional development policy and purposes
 - Project linkages with other past, ongoing and planned projects
 - Process of originating the project idea
 - Other studies, research, and works related to the project
- 5. Demand for the project:** demand analysis, marketing research and analysis, needs analysis, problem analysis, etc.
 - a) National and regional level demand analysis
 - Basic determinants and indicators of the demand
 - Previous growth trends of demand
 - Information on current demand
 - Current capacity and history of capacity utilization
 - b) Estimate of future national and regional demand
 - a. Sectoral/regional economic growth scenarios (targets and strategies) and their relation to demand estimates
 - Growth potential of demand and its relation to demand estimate
 - Documentation of methods of estimation and studies
- 6. Production/delivery of goods and/or services:**
 - a) Program of production of goods and/or services
 - b) Program of marketing/delivery of goods and/or services
- 7. Project setting/location:**
 - a) Geographic/physical characteristics (geography, climate, soil and topography, water, plants, other natural resources)

- b) Economic and physical infrastructure (access to raw materials and markets, transportation, communication, water-energy access, other ancillary support)
- c) Social infrastructure (population, settlements, income distribution, social services, cultural services, etc.)
- d) Institutional infrastructure
- e) Ecological/environmental pre-evaluation
- f) Alternatives to location and to financing of the setting

8. Technical analysis and plans:

- a) Project technology choice and capacity analysis
- b) Alternative technology/methodology analysis and choice
- c) Environmental impact of the chosen technology and costs of environmental protection
- d) Technical design (preparing the land, construction, main and ancillary equipment/machinery, maintenance considerations, time frame)
- e) Investment costs (land, construction, equipment/machinery)

9. Project inputs: primary and intermediate inputs, input costs

10. Organizational structure, management and human resources: organizational structure; production/delivery management; general expenditures; personnel requirements and estimated costs

11. Project's management and implementation program:

- a) Project implementing organizations and technical capacities
- b) Project organization's management approach
- c) Project realization program

12. Operational revenues and expenditures:

- a) Pricing of products and/or services
- b) Capacity utilization estimates
- c) Estimate of revenues and expenditures

13. Total investment and its annual profile:

- a) Total investment
 - Land
 - a. Fixed costs (project studies, licenses/patents, land amelioration, construction preparation, construction, environmental protection, road access, equipment and machinery, transport, insurance, customs, assembly, vehicles, start-up, unexpected cost allowances)
 - Interest costs
 - Operational costs
- b) Annual profile

14. Financing of the project:

- a) Managing and operating organization's financial structure
- b) Financing structure of the project
- c) Sources and conditions of financing
- d) Costs of financing
- e) Financing plan

15. Project analysis:

- a) Financial analysis
 - Financial framework and liquidity analysis

- Discounted cash flow analysis
- Financial cost-benefit analysis
- Impact on state budget
- b) Economic analysis
 - Economic costs
 - Economic benefits
 - Economic cost-benefit analysis
 - Cost effectiveness analysis
 - Other economic impacts (value added, etc)
- c) Social analysis
 - Social cost-benefit analysis
 - Socio-cultural analysis (participation, gender, governance)
 - Other social impacts
- d) Sensitivity analysis
- e) Risk analysis

16. Annexes

- a) Environmental impact evaluation
- b) Other supporting reports (seismology, etc)

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Project Appraisal Report

**Annotated Outline
(Template)**

The Project Appraisal Report (PAR) consists of concise, substantially self-contained chapters on the project's principal features, justifications, and implementation aspects. For any investment project proposed by a LM/agency for public sector funding, MOED will prepare a PAR along the following lines in order to assess the project's value (contribution) in terms of (to) the national and sectoral development objectives and evaluate the critical risks to which it is exposed:

A. Project Development Objectives

- 1) Project Development Objectives
- 2) Key Performance Indicators

B. Strategic Context

- 1) Sector-related Government goals supported by the project
- 2) Main sector issues and Government/LM/Agency strategy
- 3) Sector issues to be addressed by the project and strategic choices

C. Project Description Summary

- 1) Project components
- 2) Key policy and institutional reforms supported by the project
- 3) Benefits and target population
- 4) Institutional and implementation arrangements

D. Project Rationale

- 1) Project alternatives considered and reasons for rejection
- 2) Major related projects in sector completed, on-going, and planned
- 3) Lessons learned and reflected in proposed project design
- 4) Indications of LM/Agency's commitment to the strategic context of the project

E. Summary Project Analysis

- 1) Economic
- 2) Financial
- 3) Technical
- 4) Institutional
- 5) Social
- 6) Environmental assessment
- 7) Participatory approach

F. Sustainability and Risks

- 1) Sustainability
- 2) Critical risks
- 3) Possible controversial aspects

Annexes

Annex 1:	Project Design Summary
Annex 2:	Project Description
Annex 3:	Estimated Project Costs
Annex 4:	Cost Benefit Analysis
Annex 5:	Financial Summary
Annex 6:	Procurement and Disbursement Arrangements
Annex 7:	Project processing Schedule
Annex 8:	Documents in the Project File

The above outline is almost standard for all PARs prepared by the major IFIs. MOED and other GOAZ agencies' staff who will be involved in the preparation of PAR could, therefore, easily review some actual samples of such reports prepared by WB and ADB for their projects in Azerbaijan and acquire a good understanding of how to discuss what in the outline given above.

Khalq Newspaper, February 15, 2006

DECREE OF THE PRESIDENT OF THE AZERBAIJAN REPUBLIC

On Procedures for Conclusion of Agreements on Loans with Government Guarantee

With a view to unifying the practice of conclusion of agreements on the loans borrowed with a government guarantee, increasing responsibility of executive authorities and state enterprises with respect to borrowing and the use of such loans and preventing conclusion of the loan agreements contradicting financial and economic interests of the state, and in accordance with Article 119 of the Constitution of the Azerbaijan Republic, I decree:

1. It shall be determined that:

1.1. A proposal on commencing negotiations on the loans to be borrowed with the guarantee of the Azerbaijan Republic Government shall be presented to the Cabinet of Ministers of the Azerbaijan Republic by central executive authorities.

1.2. State enterprises or enterprises whose control packet of shares belongs to the state (hereinafter – state enterprise) shall submit their proposals on launching negotiations on the loans to be borrowed with the guarantee of the Azerbaijan Republic Government to the Cabinet of Ministers of the Azerbaijan Republic, as a rule, through central executive authority that is in charge of public administration in the respective area.

1.3. Documents providing justification for conclusion of the loan agreement and economic appraisal of the agreement shall be attached to the proposal envisaged under paragraphs 1 and 2 of this Decree.

1.4. The Cabinet of Ministers of the Azerbaijan Republic shall review the proposals envisaged under paragraphs 1 and 2 of this Decree, within 2 months, and commission additional economic and legal examination, when necessary.

1.5. In case the loan is to be borrowed by a state enterprise, the Cabinet of Ministers of the Azerbaijan Republic shall examine whether this enterprise is capable to repay the loan under the lender's conditions and for this purpose prepare an opinion on economic and financial status of the enterprise.

1.6. Should the Cabinet of Ministers of the Azerbaijan Republic consider the borrowing with the government guarantee as expedient, it shall give its consent to the head of the competent central executive authority or state enterprise for the commence of negotiations with the respective lender.

1.7. During the negotiations regarding the loans to be borrowed with the guarantee of the Azerbaijan Republic Government it should be taken into account that a draft loan agreement should comply with the following principles:

1.7.1. Compliance with the Constitution of the Azerbaijan Republic;

1.7.2. Rule of laws of the Azerbaijan Republic;

1.7.3. Avoiding detriment to financial and economic interests of the Azerbaijan Republic;

1.7.4. Securing the government guarantee with corresponding resources.

1.8. Upon being agreed among parties, draft agreement on the loan with government guarantee shall be submitted to the Cabinet of Ministers of the Azerbaijan Republic. Outcomes of the financial/economic and legal examinations of the draft agreement shall be attached to the draft. Financial/economic and legal examinations of draft agreements are prepared by specialists of competent central executive authorities (state enterprises). When necessary, central executive authorities (state enterprise) may use, for the conduct of financial/economic and legal examinations, services of well-known agencies specialized in this area. The Cabinet of Ministers of the Azerbaijan Republic may appoint additional financial/economic and legal examinations on the draft loan agreement.

1.9. After the draft loan agreement is approved by the Cabinet of Ministers of the Azerbaijan Republic, it shall be submitted to the President of the Azerbaijan Republic together with the documents foreseen in paragraphs 1.3, 1.4, 1.5 and 1.7, at least a month before conclusion of the agreement.

1.10. After the President of the Azerbaijan Republic gives its approval for conclusion of the loan agreement, the Cabinet of Ministers of the Azerbaijan Republic shall vest the head of the competent central executive authority (state enterprise) with the authority to conclude a loan agreement with a government guarantee.

1.11. The agreement on the loan borrowed with the guarantee of the Azerbaijan Republic Government, which is signed in a respective manner, shall be approved by the Cabinet of Ministers of the Azerbaijan Republic and a guarantee of the Azerbaijan Republic Government for this loan shall be provided in a form agreed among parties.

1.12. Only in exclusive cases, the agreement on the loan borrowed with the guarantee of the Azerbaijan Republic Government may envisage the rules different from the rules prescribed by laws of the Azerbaijan Republic or decrees of the President of the Azerbaijan Republic. In this case, the necessity for provision of the rules different from the rules prescribed by the laws of the Azerbaijan Republic or decrees of the President of the Azerbaijan Republic shall be justified by the Cabinet of Ministers of the Azerbaijan Republic, in addition to financial/economic and legal examinations, when the loan agreement is submitted to the President of the Azerbaijan Republic.

1.13. Should an agreement on the loan borrowed with the guarantee of the Azerbaijan Republic Government envisage the rules different from the rules provided in laws of the Azerbaijan Republic, this agreement shall be submitted for approval to the National Assembly of the Azerbaijan Republic by the President of the Azerbaijan Republic.

1.14. Should an agreement on the loan borrowed with the guarantee of the Azerbaijan Republic Government envisage the rules different from the rules provided in decrees of the Azerbaijan Republic, it shall be approved by the President of the Azerbaijan Republic.

1.15. The Cabinet of Ministers of the Azerbaijan Republic shall report, at least annually, to the President of the Azerbaijan Republic regarding effective and purposeful utilization of the loan with government guarantee. Should the term of the loan agreement is less than a year, this information shall be submitted a month before termination of the loan's term.

2. Within 2 months, the Cabinet of Ministers of the Azerbaijan Republic shall prepare and submit to the President of the Azerbaijan Republic draft regulations for organization of competitions for issuance of the guarantee of the Azerbaijan Republic Government for the loans borrowed by private enterprises in the Azerbaijan Republic.

3. The Cabinet of Ministers of the Azerbaijan Republic shall settle other issues raising out of this Decree.

4. This Decree shall come into force upon being signed.

Ilham Aliyev
President of Azerbaijan Republic

Baku, February 13 2006

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MINISTRY OF ECONOMIC DEVELOPMENT

Policy-Based Prioritization of Public Investment Projects

A Sample Method

The PIPP Manual emphasized the importance of both micro- and macro-policy-based prioritization of public investment projects for screening and sifting them according to their contribution to the national and sectoral development objectives and strategies, particularly to reduction of poverty and regional imbalances (see par. # 4.6.2.8). Such qualitative (non-quantitative) prioritization, however, involves using various ranking and weighting methods. There are no internationally adopted standard methods that can be recommended for use by GOAZ. MOED and MOF should jointly develop, in cooperation with LMs/agencies and State research institutes, appropriate ranking and weighting systems for policy-based prioritization of public sector projects. Three examples of such systems, which can be found in the web-sites of other countries' planning and budgetary agencies, are provided here to help the subjected understood better.

Example 1: A hypothetical example developed by the USAID/PIP Project:

<u>Policy Criteria</u>	<u>Weights</u>	<u>Projects</u>			
		<u>a</u>	<u>b</u>	<u>c</u>	<u>d</u>
A	30	4	3	1	2
B	35	1	4	2	3
C	20	4	1	2	3
D	15	2	3	4	1
TOTAL	100	265	295	200	240

A LM/agency has 4 projects (a, b, c, and d) and ranks them against each of the four policy criteria, which were established and weighted jointly by MOED and MOF and approved by HPPC. The hypothetical Example 1 shows that the LM/agency's projects portfolio comprises 4 projects and they are prioritized as b, a, d, and c on the basis of the four policy-based criteria.

Example 2: The following example is taken from the US Federal Government's General Accounting Office publication

Prioritizing Projects within a Portfolio

Capital assets should be compared against one another to create a prioritized portfolio of all major capital assets. Just as an individual invests in a diverse portfolio of securities, agencies invest in a diverse portfolio of capital assets. For the individual investor, returns are measured in dividends or capital gains. While the benefits and costs

of capital asset portfolios should be quantified in monetary terms when feasible, agencies also measure return on the basis of outputs and outcomes.

For the individual investor, some investments are more risky than others. Similarly, an agency's capital asset investments have various levels of risk. Sound planning for procurement and operational management can mitigate risk. But *all* assets, especially those requiring extensive development work before they can be put into operation, are inherently risky and should be justified by high return. Agencies should choose a portfolio of capital investments that maximize return to the taxpayer and the Government -- at an acceptable level of risk.

One approach to devising a ranked listing of projects is to use a scoring mechanism that provides a range of values associated with project strengths and weaknesses. Figure 8 on the following page shows examples of how some key risk and return criteria might be scored. These examples are drawn from multiple best practices organizations. Higher scores are given to projects that meet or exceed positive aspects of the decision criteria. Additionally, in this example, weights have been attached to criteria to reflect their relative importance in the decision process. To ensure consistency, each of the decision criteria should have operational definitions based on quantitative or qualitative measures. A scoring and ranking process, such as the one depicted in Figure 8, may be used more than once, and in more than just this step to limit the number of projects that will be considered by an executive decision-making body.

An outcome of such a ranking process might produce three groups of projects:

- ***Likely winners.*** One group, typically small, is a set of projects with high returns and low risk that are likely "winners."
- ***Likely drop-outs.*** At the opposite end of the spectrum, a group of high-risk, low-return projects that would have little chance of making the final cut.
- ***Projects that warrant a closer look.*** In the middle is usually the largest group. These projects have either a high-return/high-risk or a low-return/low-risk profile. Analytical and decision-making energy should be focused on prioritizing these projects where decisions will be more difficult. At the end of this step, senior managers should have a prioritized list of capital investments and proposals with supporting documentation and analysis.

Example 3: The following example is taken from the World Bank, "Russia: Towards Improving the Efficiencies of Public Investment Experience", Report No. 22693-RU, pp.62-65.

Sample approach for prioritizing projects

<i>Economic Internal Rate of Return</i>	
Given criterion is useful for comparing projects distinguished by various risk levels. Projects with higher internal rate of return (IRR) value shall have more priority compared to projects with lower IRR.	IRR>60% - 7 points 60%>IRR>40% - 5 points 40%>IRR>30% - 3 points 30%>IRR>20% - 2 points 20%>IRR>10% - 1 point IRR<10% or no calculation – 0 points
<i>Social significance of a project</i>	
Evaluation of a project is based on adequacy to the following aspects of social significance: <ul style="list-style-type: none"> • Provision of housing for public servants and re-deployed servicemen • Improving employment of the population and reduction of unemployment • Improving access to the quality health services • Improving access to the quality education services • Poverty reduction: <ul style="list-style-type: none"> - Provision of sufficient potable water supply to the population Reduction of death-rates - Improving the scope of secondary education cover - Enhancement of economic opportunities for the poor - Ensuring access to provision of social services for the poor - Coverage of distant rural districts • Environmental concerns of the project 	Evaluation is based on summing-up of applicable aspect-specific points. 4 points 2 points 2 points 2 points 4 points 2 points 2 points 4 points 4 points 2 points 4 points
<i>Environmental safety of the project</i>	
Evaluation of environmental safety of the project (taking into consideration environmental pollution contingencies and utilization of limited irreplaceable natural resources).	
Environmental safety of a project	4 points
A project involves avoidable contingencies	2 points

A project bears high hazard of risk for the environment	(-4) points
<i>Internal co-financing (from the budgetary resources) requirement</i>	
Considering certain difficulties with provision of internal co-finance, absence of the requirement demanding obligatory participation of the Government in co-financing of a part of a project's cost is thought an advantage.	Up to 10% of the overall cost of a project – 4 points
	10% to 20% of the overall cost of a project – 2 points
	More than 20% of the overall cost of a project – (-2) points
<i>Terms of procurement within the framework of a project</i>	
A project that implies procurement of work, goods or services based on competitive bidding, invites maximum possible amount of participants to take part in the bidding and has no restriction on amount and pattern of bidding participants, shall have more priority over the projects that impose restrictions on bidding.	No restriction on bidding – 4 points
	Purchase of work, goods and services from domestic sources only– (-2) points
	Bidding is not allowed (instead, work, goods or services are purchased directly) – (-4) points
<i>Project-related risks</i>	
Priority of a project depends on the level of risks involved. Higher risks result in substantial decrease of a project's priority.	Insignificant risks – 3 points
	Moderate risks – 2 points
	Substantial risks – 1 point
	High risks – 0 points
<i>Project implementation evaluation (for current projects)</i>	
Based on use of special indicators each of the projects is evaluated in terms of implementation and accomplishment of tasks and goals set within the framework of the project. Unsatisfactory implementation of a project shall result in less priority compared to the successfully accomplished ones.	Procurement quality: Satisfactory – 1 points Unsatisfactory – (-1) points
	Compliance with the project implementation timetable: Compliant – 1 points Non-compliant – (-1) points

	<p>Project finance development rates:</p> <p>Satisfactory – 1 points Unsatisfactory – (-1) points</p> <p>Quality of work, goods and services:</p> <p>Satisfactory – 1 points Unsatisfactory – (-1) points</p> <p>Compliance with the tasks and goals of a project:</p> <p>Compliant – 1 points Non-compliant – (-1) points</p> <p>Evaluation of compliance is premature – 0 points</p>
<i>Evaluation of implementer's capacity for maintenance and exploitation of the resources acquired</i>	
<p>Should the end-implementor have no sufficient amount of finance to maintain and utilize/exploit resources purchased on account of borrowed funds (including specialists who are knowledgeable, skillful and experienced enough to be capable of maintaining and utilizing resources purchased), the consequence is less priority of a project.</p>	<p>Sufficient capacity / amount of finance – 2 points</p> <p>Insufficient capacity / amount of finance – (-2) points</p>
<i>Inspecting quality of preparation for a project</i>	
<p>Quality of preparation for a project is being appraised based on availability of detailed project documentation (terms of reference) as well as project auditing results. Absence of detailed Terms of Reference as well as negative auditing results considered disadvantage at evaluation of a project.</p>	<p>Available terms of reference and the auditing results are positive – 2 points</p> <p>Terms of reference are not available or in the making – 0 points</p> <p>Terms of reference are available, yet auditing results are negative – (-2) points</p>
<i>Availability within executive agency (ministry / department) of a structural unit responsible for administering sector investment projects associated with the project under consideration</i>	

<p>Availability within executive agency (ministry / department) of a structural unit (several structural units) that is responsible for administering sector investment projects associated with the project under consideration, and has experience of implementing various international projects is considered advantage at evaluation of the project.</p>	<p>Availability of such executive agency and correspondent experience in implementation of international projects – 2 points</p> <p>Availability of such executive agency – 1 point</p> <p>Absence of such unit – 0 points</p>
<p>Maximum aggregate result: 37 points</p>	

The above weighting scheme gives higher weights to projects for capital repairs and equipment purchases, and against new construction. This is important to address the rapid depreciation of the capital stock and its efficiency. The weighting scheme also gives preference to projects with low future recurrent costs which would help to minimize future costs and enable the sustainability of the new investments.

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Financial and Economic Analysis of Public Investment Projects

I- Introduction

The financial analysis of a project estimates the profit accruing to the project-operating entity, whereas economic analysis measures the effect of the project on the national economy. For a project to be economically viable, it must be financially sustainable, as well as economically efficient. If a project is not financially sustainable, economic benefits will not be realized. Financial analysis and economic analysis are therefore two sides of the same coin and complementary, and therefore, form part of an integrated framework for project assessment. Both types of analysis are conducted in monetary terms, the major difference lying in the definition and valuation of costs and benefits.

In financial analysis all expenditures incurred under the project and revenues resulting from it are taken into account. Based on the relevant financial data, including prices (and assumptions on their future price levels), there will be a need to develop financial cash flow forecasts for the proposed project.

Economic analysis attempts to assess the overall impact of a project on improving the economic welfare of the citizens of the country concerned. It assesses a project in the context of the national economy, rather than for the project participants or the project entity that implements the project. The following will highlight the main differences of economic and financial analysis.

II- Identification and Quantification of Costs and Benefits

For directly productive projects, the **main benefits** will be in the form of production that is sold. It is important to determine whether a project's output is incremental to existing supplies. If the project is small relative to the size of the market, it is likely that the project output will be fully incremental. For most indirectly productive projects, the type and extent of expected benefits can be quantified through such factors as time and cost savings, increased access, improved health, and so on, most of which have a productive effect, as well as a direct effect on welfare. Some benefits of indirectly productive projects will not be quantifiable. For example, a newly sited bridge may not only reduce travel time for haulage trucks, but may also encourage greater social and political interaction by those on both sides of the river. A dam project may create a reservoir that not only can be used for fishing or recreational purposes, but also can have a scenic value for existing inhabitants. Such benefits should be stated along with an estimate of the number of beneficiaries.

The various **cost components** include the following items:

a) **Cost of technical analysis/assessment:** the fundamental parameter for the project begins with the assumed technical assumptions which underpin the project design, and from which other aspects will be designed in an integrated manner (e.g., technical needs to be integrated with budgetary, social, environmental aspects).

- (b) **Cost of investment:** includes purchase or acquisition of land, buildings, capital equipments, and other expenses incurred to build up the project's "production" structure.
- (b) **Operations and maintenance costs:** refer to the matching expenditures needed to operate the project and achieve expected benefits;
- (c) **Sunk costs:** refers to the use of facilities already in existence, and hence the costs of such facilities are sunk costs and should not be included in the project cost, provided their use in the project involves no opportunity cost.
- (d) **Contingency costs:** financial planning requires price and physical contingencies, where economic costs exclude the price contingencies.
- (e) **Working capital:** For purposes of economic analysis, only inventories that constitute real claims on the nation's resources should be included in the project economic costs. Other items of working capital reflect loan receipts and repayment flows, and are not included in the economic cost.
- (f) **Transfer payments:** Some of the items included in the financial costs of a project are not economic costs, as they do not increase or decrease the availability of real resources to the rest of the economy. These items will, however, affect the distribution of financial costs and benefits between the project entity and other entities, and among project beneficiaries. They are thus referred to as transfer payments, as they transfer command over resources from one party to another without reducing or increasing the amount of resources available as a whole.
- (g) **Depreciation:** The financial accounts of agencies implementing a project will include provision for depreciation and amortization on the basis of prevailing accounting practice. However, for project economic analysis, the stream of real investment required to realize and maintain project benefits is included in the resource flow, together with a residual value for these assets at the time they are released from project use at the end of the projects life.
- (h) **Depletion premium:** Many projects involve the exploitation of a nonrenewable natural resource, such as oil, natural gas, or mineral deposits. The economic cost of using these natural resources must be included in the economic analysis.
- (i) **External costs:** In many projects, effects will go beyond the financial analysis from the point of view of the implementing agency. These external effects may include significant costs that must be accounted for in an economic analysis from the national perspective. For example, increased air and water pollution from an industrial plant may be measured and its effects on surrounding entities estimated.

III- Financial Analysis of Projects: Key Concepts and Tools

The financial analysis of a project helps to determine the financial sustainability of the project and its overall success. One can also describe the financial analysis of a project as a process that entails the organization of specific data requirements in certain financial statements, followed by the application of certain investment criteria to these statements to determine the financial profitability or sustainability of the project.

Financial Cash Flows. The financial cash flow statement is a profile of the project's receipts and expenditures over time. The cash flow statement is organized in two main sections. The first section generally contains the expected financial receipts generated by the project, while the second one contains the expected financial expenditures incurred to generate the receipts of the project. The project's total expenditures, also known as total outflows, are subtracted from its receipts (inflows) to provide the net cash flow from the. Such costs and benefits are essentially fall into two categories: investment expenditures and operating expenditures and benefits:

Investment Plan. The financial cash flow statement of an investment plan is based on the information developed in the technical, demand, manpower, and financing modules. The

investment plan consists of two sections: the first deals with the expenditure on new acquisitions, and the opportunity cost of existing assets, and the second section deals with the financing aspects of the proposed investment.

Operating Plan. The operating plan is developed on the basis of the data formulated and organized in the technical, demand (market), and manpower modules. It should include all cash receipts generated from the operations of the business and all operating expenditures

Cessation of Project Operations. There is a need to reflect in the cash flow statement the residual value of an asset following "cessation" of a project (normally shown as an inflow the year after cessation).

Use of Consistent Prices in a Financial Appraisal. When conducting a financial appraisal of a project, it is necessary to develop price and cost projections over the life of the project. These prices are influenced by two forms of price changes which a project appraisal must consider: changes in relative prices and changes in the price level (or inflation). The underlying factors of these two price changes are different (e.g., supply and demand forces, and monetary supply factors vis-à-vis growth of goods and services, respectively). To understand the impact of real price changes and inflation on the financial viability of a project and how they are incorporated in the analysis, there is need to highlight the definition or derivation of various price variables employed in the analysis, including:

(a) **Definition of prices and price indices**, including: (i) nominal prices (known as "current" prices); (ii) price level and index; (iii) changes in price (inflation); (iv) real prices (or "real" price, whereby the nominal price of an item is divided by the index of the price level at the same point in time); and (v) changes in real prices.

(b) **Nominal interest rate:** The most important feature for integrating expectations about the future rate of inflation or expected growth in general prices into the project evaluation is to ensure that such expectations are consistent with the projections of the nominal rate of interest. There are essentially two factors accounting for the divergence of the nominal interest rate from real interest rate: a risk factor; and an adjustment factor reflecting compensation for loss in purchasing power due to inflation.

(c) **Expected (nominal) exchange rate:** A key financial variable in any project using or producing tradable goods is the market rate of the exchange between the domestic and foreign currency. There are methods to project this exchange rate, normally done by macroeconomists, and not project economists.

IV- Valuation of Economic Costs and Benefits

Once the costs and benefits of a project have been identified and quantified, they should be valued according to common criteria. This allows them to be aggregated and compared. Decisions by producers and users of project output will be based on financial prices. However, to evaluate the consequences of their decisions for the national economy, costs and benefits need to be valued at economic prices that represent their value from the national economic perspective. Costs and benefits should be valued in constant prices that are expressed at price levels prevailing in the year in which the project is appraised. Any expected change in the general price level can be ignored. However, if it is expected that there will be significant changes in relative prices over the life of the project, for example that the output of a food production project will decline in value relative to prices in general, then this relative price change must be incorporated in the valuation of the cost or benefit item.

Role of World Prices: One approach to estimating the value of outputs and inputs from the national point of view uses world market prices. The extra outputs and demand for inputs created by a project will have a direct or indirect effect on international trade. World market prices are also subject to national and international policy effects and, in some cases, to monopolized market structures. However, trade represents an alternative to domestic production for most goods and services. Hence, world prices can be used to measure the economic value of project inputs and outputs from the national perspective. The table below summarizes the basis for valuing main project outputs and inputs.

Table: Valuation of Main Project Outputs and Inputs

	Category	Project Impact	Basis of Economic Price	Basis of Valuation
Output	Tradable	Incremental	Demand price	WMP (=FOB)
		Non-incremental	Supply price	WMP (=CIF)
	Non-tradable	Incremental	Demand price	DMP + CT
		Non-incremental	Supply price	DMP - PT - OS
Input	Tradable	Incremental	Supply price	WMP (=CIF)
		Non-incremental	Demand price	WMP (=FOB)
	Non-tradable	Incremental	Supply price	DMP - PT - OS
		Non-incremental	Demand price	DMP + CT

CIF - Cost insurance freight OS - Operating surplus
 CT - Net consumption tax PT - Net production tax
 DMP - Domestic market price WMP - World market price
 FOB - Free on board

V- Project Decision and Evaluation Criteria

The preceding sections outlined the broad principles for identification, quantification, and valuation of project costs and benefits. The resulting streams of costs and benefits are used to make project choices. For comparing such streams of costs and benefits, they must be expressed in common terms of "present value" with respect to the "agreed rate of time value of money" as explained below.

Time Dimension of a Project: Importance of Compounding and Discounting: The time dimension of a project's both cash outflow and flow of economic benefits can be captured by expressing the values in terms of present values. When bringing future values back to the present for comparison purposes, it is necessary to discount them. Discounting is just the inverse of compounding

Choice of a Discount Rate: The discount rate is a key variable in applying investment criteria for project selection. Its correct choice is critical given the fact that a small variation in its value may significantly alter the results of the analysis and affect the final choice of a project. The rate of discount, in simple terms, is the cost of funds that are invested in the project. When economic analysis is applied, the relevant cost of funds is the social discount rate or the economic opportunity cost of capital to the country. There are different approaches for

estimating a discount rate for economic analysis. One guide for estimating the social discount rate is the weighted average of the costs of funds from the three sources: rate of return on postponed investments, the rate of interest on domestic savings, and the marginal cost of additional foreign capital inflows. When a country faces a budget constraint, it is common practice to use a higher discount rate to determine project viability decisions. These budgetary situations highlight the urgency for looking for viable projects with higher rates of return. Equally, a Government budget surplus, and/or readily available foreign financing, is not an excuse to accept projects with lower rates of return (or lower discount rates). Efforts should be made to design and select projects with high rates of return and favorable social impacts on the country.

There are several criteria to be used for assessing financial and economic viability of and choosing from among project options, including:

(a) **Benefit-Cost Ratio:** The benefit-cost ratio, known also as the profitability index, compares the present value of the cost streams with the present value of the benefit streams, each discounted at the same rate. The comparison is made by forming the ratio of the present value of benefits to the present value of costs.

Formula:
$$\text{Ratio} = \frac{\text{Stream of Discounted Benefits}}{\text{Stream of Discounted Costs}}$$

(b) **Net Present Value:** The net present value (NPV) also compares the present value of the cost streams with the present value of the benefit streams. However, it does so not as a ratio but by taking the cost stream away from the benefit stream to obtain the net benefit stream, which can then be discounted (where B - benefits; C – costs; i – discount rate).

Formula:
$$\text{NPV} = \sum_{t=1}^n \frac{Bt}{(1+i)^t} - \sum_{t=1}^n \frac{Ct}{(1+i)^t}$$

If this sum is equal to zero, then investors can expect to recover their incremental investment and to earn a rate of return on their capital equal to the private discount rate used to compute the present values.

(c) **Internal Rate of Return:** The third criterion for summarizing the benefit and cost effects of a project alternative is the *internal rate of return (IRR)*. The IRR is calculated using the net benefit stream obtained by subtracting year by year all costs from all benefits. The IRR is the rate of discount for which the present value of the net benefit stream becomes zero.

Formula:
$$0 = \text{IRR} = \sum_{t=1}^n \frac{Bt}{(1+i)^t} - \sum_{t=1}^n \frac{Ct}{(1+i)^t}$$

Accordingly, investors recover their invested capital and earn a rate of return equal to the discount rate, which is the IRR

In addition, there are other less rigorous criteria which can be used to assess project viability, at least at an initial phase, to be complemented by more rigorous methods. However, caution needs to be exercised in using these alternative measures to avoid misleading conclusions.

Pay-out or pay-back period: It measures the number of years it will take for the undiscounted net benefits (positive net cash flows) to repay the investment. It places a premium on projects which have a quick pay-back period. But, it can give misleading results for cases of investments with a long life as it ignores the time value of money.

Debt service ratio: The debt service ratio is a key factor in determining the ability of a project to pay its operating expenses and to meet its debt servicing obligations.

Cost-effectiveness Analysis: This is an appraisal technique and criterion often used for social projects and programs, where it is difficult to quantify benefits in monetary terms, or when the benefits of alternative investments are similar. The present values of costs have to be computed.

VI- Financial Sustainability and Fiscal Impact

There are three aspects of financial sustainability:

- the availability of adequate funds to finance project expenditures, especially funds drawn from the government budget,
- the recovery of some of the project costs from the project beneficiaries, and
- financial incentives necessary to ensure participation in the project.

Project Funding and Fiscal Impact: A financial plan at constant financial prices is necessary to ensure that there will be adequate funds to finance project expenditures. This applies to the implementation period to ensure that capital funds are available to cover investment and working capital requirements, and to the operating period to ensure sufficient funds to cover operating expenditures. Where the project will generate revenue, this revenue will be the main source of funds during the operating period.

For indirectly productive projects that do not generate sufficient funds to cover operating expenditures, the full fiscal impact of the project for each year of its life should be calculated. The financial requirement becomes a fiscal requirement, and steps should be taken to ensure that the government commits adequate funds for operational purposes. Directly productive projects will also impact on the government budget, through tax revenues and concessions, and the net budget effect also can be calculated. The fiscal impact calculations should be linked to policy discussions over the extent and scale of user charges, operators' fees, and tax revenues.

VII- Environmental Assessments

The net present value (NPV) of a project is an appropriate criterion to compare environmental impacts of the without and with project cases. However, with the discount rates as high as 10 to 12 percent, many long-term environmental impacts tend to become insignificant. Where environmental impacts may extend beyond the life of other project effects, the environmental impact analysis can be combined with a sensitivity analysis for the discount rate, based on a lower rate. If, from the society's point of view, individuals over-consume environmental resources in the present, the discount rate based on society's time preference would be lower than market-based discount rates. In such circumstances, NPVs for without and with environmental impact values can be examined at alternative discount rates.

VIII- Sensitivity and Risk Analysis

Sensitivity analysis is undertaken to help identify the key variables that can influence the project cost and benefit streams. It involves recalculating the project results for different values of major variables where they are varied one at a time. Combinations of changes in values can also be investigated. Sensitivity analysis involves four steps:

- Selecting those variables to which the project decision may be sensitive;
- Determining the extent to which the value of such variables may differ from the base case;
- Calculating the effect of different values by recalculating the project NPV and EIRR; and
- Interpreting the results and designing mitigating actions.

Project statements are made up from underlying project data and assumptions. For example, vehicle operating cost savings are made up from traffic projections for different proportions of vehicle type, their division into without project and generated traffic, data on road quality and maintenance operations, and data on the vehicles and their operating costs. Sensitivity analysis of the project benefits for a road improvement project should be based on changes in such underlying variables rather than the aggregate benefit measure. Focusing on underlying rather than aggregate variables facilitates the design of actions to mitigate uncertainty.

The following procedure could be followed in undertaking the sensitivity test.

- Variables to which the project is likely to be sensitive and for which there is some uncertainty, should be listed. Alternative values should be assumed, based on previous project data where available. The change in the value of the variable should be calculated and expressed as a percentage of the original value. The extent of change should be stated for those variables such as timing of activities where a percentage change is not meaningful.
- The project NPV and EIRR should be recalculated for stated changes in variables one at a time. Unless a different country estimate is available, the NPV should be recalculated using an economic discount rate of 12 percent, which is widely used by IFIs operating in Azerbaijan.

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Publications and Documents Consulted for Preparation of PIPP Manual

The following list of publications and documents intends to serve two purposes: First, it shows to the reader the materials which have been consulted by the USAID PIP Project in developing the PIPP Manual for Azerbaijan. Second, it provides the reader with information on reliable sources where h/she could go for further procedural, institutional, and technical details on any subject of this Manual. During the review and discussion of the draft Manual, this bibliography will be extended and will also be made available on a CD-ROM.

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**DECREE OF THE PRESIDENT OF AZERBAIJAN ON ADDITIONAL
ACTIONS FOR ACCELERATION OF THE COUNTRY'S SOCIO-
ECONOMIC DEVELOPMENT**

Successful implementation of a large volume of pieces of legislation directed at socio-economic development and approved by the President of Azerbaijan (including, Presidential Decree on Actions for Acceleration of Socio-Economic Development dated 24.11.2003; Presidential Decree on Additional Measures for Promotion of Investment Activities dated 30.03.2006; State Programs for Poverty Reduction and Regional Development etc.) is proceeding.

As a logical result of such policy, during last five years GDP has increased by 123 percent, public investments 4 times, average monthly salary twice. This has in turn fosters macroeconomic and SME development and improvement of living standards.

At the same time, the real GDP in Azerbaijan in 2009 is expected to reach 30 bln.manats and with this aspect in mind, more favorable conditions are to appear for implementation of actions prescribed in SPPRSD and SPSEDR, as well as various sector development papers. One of key policy instruments to be utilized for efficient achievement of the aforementioned tasks is the Public Investment Program. Development of unified procedures and guidelines on formulation of medium and long term public investment policy and program, preparation of public investment program and development of projects included in it (as well as, utilization of modern cost-benefit, cost-efficiency, monitoring and evaluation methods at project preparation stage, public participatory process in decision making, etc.) is critical.

Considering the aforementioned, as well as the necessity to take a number of improvement actions in such fields as socio-economic development planning, state budget formulation and organization of investment program with purpose of supporting and accelerating socio-economic development in Azerbaijan, I hereby resolute:

- 1. Within 3 months the Cabinet of Ministers jointly with relevant ministries and agencies shall:**
 - 1.1. Coordinate establishment of High Policy Planning Council-HPPC (economic sub-cabinet) within the Cabinet of Ministers, with purpose of implementing of the President's socio-economic development strategy, as well as full discharge of authorities related to identification of public investment policy;
 - 1.2. Prepare and submit to the President work calendar and performance guidelines for the HPPC;
 - 1.3. Identify and approve standard guidelines and procedures for preparation of sector development plans;
 - 1.4. With purpose of regulating development of public investment policy and program, as well as selection of investment projects to be included in this program, approve necessary rules and norms developed by the Ministry of Economic Development;
 - 1.5. Summarize proposals on necessary amendments in the Budget System Law, Investment Activities Law and other pieces of legislation of Azerbaijan related to executing of this decree and submit them to the President's Office.

- 2. Based on the authorities granted to the Ministry of Economic Development by the Presidential Decree dated _____ related to Public Investment Program, the Ministry within 3 months shall:**

- 2.1. Every year ensure preparation of macro-economic forecasts (Medium Term Macroeconomic Framework) for the next four years using formal economic models related to identification of the country's socio-economic strategy and submit them to the HPPC to be established within the Cabinet of Ministers;
 - 2.2. Prepare necessary procedures and guidelines for formulation of public investment policy and program as a macroeconomic policy instrument and submit it to the Cabinet of Ministers for approval;
 - 2.2.1 Identify critical working groups to be established at the MOED, who with the help of these procedures and guidelines will identify: (a) steps for preparation of investment projects proposed for Public Investment Program; (b) methods for performing socio-economic policy based and quantity based modern cost-benefit and cost-efficiency analyses required during formulation of public investment projects; (c) functions and ways of involvement of relevant sector ministries and agencies in preparation and selection of investment projects; and (d) efficiency of investment projects proposed by sector ministries/agencies and their consistency with macroeconomic framework, sector development plans and content of Public Investment Program.
 - 2.3. Oversee implementation of Public Investment Program, implement its monitoring and evaluation, identify rules and standards for investment projects' monitoring and evaluation, report annually to HPPC on macroeconomic and cross-sectoral impact of public investment program;
 - 2.4. With capacity building purpose organize trainings on various subjects related to public investment policy and program for the employees of budget organizations and ensure strengthening of Center of Economic Reforms as a sustainable Training Resource (center).
- 3. Within 3 months the Ministry of Finance shall:**
- 3.1. According to Medium Term Macroeconomic Framework prepare Budget Framework and submit it to the HPPC;
 - 3.2. Prepare Budget Call Circular as a part of Joint Call Circular, which is developed by the Ministry of Economic Development and covers SPRSD and PIP Call Circulars;
 - 3.3. Jointly with the Ministry of Economic Development prepare proposals on amendments in state budget legislation caused by Public Investment Policy and Program Manual, development of which is prescribed hereby.
- 4. Cabinet of Ministers and relevant budgetary organizations shall solve all aspects coming forward from this Decree.**
- 5. This Decree shall come into force on the date of signature.**

Ilham Aliyev
President of Azerbaijan Republic
Baku, ____ December 2006

Attachment 3.

Draft for Comments

Confirmed by the Decree #
of the President of Azerbaijan Republic
dated on "___" _____ 2006

REGULATIONS FOR FORMULATION AND REALIZATION OF PUBLIC INVESTMENT POLICY AND PUBLIC INVESTMENT PROGRAM

I. General Provisions

1. "Regulations for Formulation and Realization of Public Investment Policy and Public Investment Program" (hereon "Regulations") is determined based on the Presidential Decree #4 of 24 November, 2003 "On Measures to Accelerate the Social-Economic Development of Azerbaijan," Presidential Decree #504 of 28 December, 2006 "On Statute of the Ministry of Economic Development," and other laws and regulations in effect in Azerbaijan Republic.
2. "Regulations" determine the administration of the following stages of public investment activities:
 - a) Formulation of public investment policy of Azerbaijan Republic,
 - b) Preparation and approval of the Public Investment Program,
 - c) Preparation and approval of investment projects,
 - d) Implementation of investment projects,
 - e) Monitoring and evaluation of realization, implementation, and outcomes of investment projects.
3. The Public Investment Program includes investment projects as defined in the State Budget Classification System of Azerbaijan Republic.
4. The Public Investment Program investment projects belong to:
 - a) budget organizations,
 - b) central and local executive organs and their subordinated organizations,
 - c) extra-budgetary funds,
 - d) Cabinet of Ministers of Autonomous Republic of Nakhchivan,
 - e) organization which the State owns principal charter capital,
 - f) municipalities.

II. Formulation of public investment policy

1. Public investment policy of Azerbaijan Republic is planned and realized for the purpose of medium and long-term macroeconomic stability, sustainable economic development and diversification, and transitioning the economy to more competitive market-based structure. Medium-term public investment policy is based on general directions indicated in the medium-term Social and Economic Development Forecasts.
2. The priorities of public investment policy and Public Investment Program of Azerbaijan Republic is elucidated in the planning and programming documents of the State Program of Poverty Reduction and Sustainable Development, the State Program of Social and Economic Development of Regions, Sector Development Plans, and other national and sectoral development policies of Azerbaijan Republic.

3. The President of Azerbaijan determines with the advice of the High Policy Planning Council the medium-term national and sectoral development objectives and targets. These objectives and targets are based on recent economic developments and assessment of medium-term economic development prospects.

4. The High Policy Planning Council coordinates the compliance and the technical work between the medium-term national and sectoral development objectives and targets and the medium-term framework of Social and Economic Development Forecasts, the State Programs, public investment policy, the medium-term budgetary plans, and Public Investment Program. The technical work of the High Policy Planning Council on the medium-term Social and Economic Development Forecasts is the responsibility of the Ministry of Economic Development in coordination with the Ministry of Finance and the National Bank of Azerbaijan.

5. The preliminary medium-term Social and Economic Development Forecasts and the medium-term national and sectoral development objectives and targets are the unitary policy and technical bases for the annual Call Circulars issued by the Ministry of Finance and the Ministry of Economic Development. The Call Circulars give joint and common instructions for the preparation under unified purpose of the draft Consolidated Budget, the draft Public Investment Program, and annual reports of the State Program of Poverty Reduction and Sustainable Development and the State Program of Social and Economic Development of Regions. The Ministry of Finance and the Ministry of Economic Development assure that the joint instructions of each Call Circular are consistent with each other.

III. Annual formulation of Public Investment Program

1. By January 15, the President's Office requests from the Ministry of Economic Development a preliminary joint report on the recent economic developments and the assessment of medium-term period development prospects compared to that of previous year's economic performance.

2. By February 1, the Ministry of Economic Development submits the preliminary joint report to the President's Office of Azerbaijan Republic. The Ministry of Economic Development prepares the review and the assessments in coordination with the Ministry of Finance and the National Bank of Azerbaijan.

3. By February 15, the President of Azerbaijan Republic, with the advice of the High Policy Planning Council identifies national and sectoral development objectives and targets for the next year and the medium-term for the Azerbaijan Republic and instructs the Ministry of Economic Development to prepare the preliminary framework of medium-term Social and Economic Development Forecasts.

4. By March 1, the Ministry of Economic Development submits the preliminary medium-term Social and Economic Development Forecasts to the President's Office, the Cabinet of Ministers, and the Ministry of Finance. By March 20, the Ministry of Finance formulates the preliminary medium-term state budget framework based on the preliminary medium-term Social and Economic Development Forecasts.

5. The total public investment expenditure amount and its sectoral allocations for the next year and the following three years are determined by the Ministry of Economic Development in coordination with the Ministry of Finance. The relative allocations within and across investment programs shall achieve maximum net benefits of sectoral outcomes and balanced social benefits.

6. By April 1, the Ministry of Economic Development issues the Public Investment Program Call Circular to prepare the draft Public Investment Program for the next year and

the following three years. The Call Circular instructions include preliminary public investment expenditure limits.

7. The Ministry of Economic Development reviews the monitoring reports on the realization and evaluation reports on the outcomes of investment projects of the current Public Investment Program. The Ministry of Economic Development considers the planned expenditures of the ongoing investment projects with respect to levels of implementations and expected outcomes. The Ministry of Economic Development takes measures to increase effectiveness of realization of investment projects or to eliminate, if necessary, any ongoing project before embarking on the new draft Public Investment Program.

8. Changes to the content of investment projects and to the levels of financing in the current Public Investment Program are determined by taking into account of the current public investment policy, the medium-term expenditure framework, the most recent medium-term framework of Social and Economic Development Forecasts, and the results of evaluation of effectiveness reports as determined by these Regulations.

9. By June 1, the investment project executors submit to the Ministry of Economic Development the responses to the Public Investment Program Call Circular.

10. By August 1, the Ministry of Economic Development prepares for the next year and the following three years a preliminary draft Public Investment Program.

11. By September 15, the Ministry of Economic Development in coordination with the Ministry of Finance finalizes the draft Public Investment Program in consistency with the draft Consolidated Budget in accordance with Section VIII, Article 1 of these Regulations.

12. By September 15, the draft Consolidated Budget together with the draft Public Investment Program is submitted by the Ministry of Finance and the Ministry of Economic Development to the Cabinet of Ministers of Azerbaijan Republic. The draft Public Investment Program includes:

- a) the list of investment projects,
- b) amounts of estimated investment expenditures by project by year with sources of financing,
- c) explanation of major investment projects by sectors,
- d) explanation of the total and sectoral investment expenditures based on national development objectives, most recent sectoral development plans, the medium-term framework for Social and Economic Development Forecasts, and public investment policy.

13. The draft Public Investment Program is submitted to the Milli Mejlis as part of the draft Consolidated Budget. The draft Public Investment Program includes all the items stipulated in Article 12 of this section.

14. The Public Investment Program is approved as a full and complete document by the Milli Mejlis and is made public with the Consolidated Budget.

IV. Planning and Realization of Public Investment Program

1. The planning and realization of Public Investment Program are executed by the Ministry of Economic Development in coordination with the Ministry of Finance.

2. Realization of Public Investment Program by means of realization of investment projects is carried out in four stages:

- a) formulation and selection of the investment project Concept Papers,
- b) selection of investment projects,
- c) formulation and approval of list of the priority public investment projects,
- d) formulation and approval of investment projects into the draft Public Investment Program.

3. The investment projects of ministries and agencies, which are at different stages of identification, planning, approval, realization, and evaluation constitute the Projects Register. The implementation of Projects Register facilitates the realization of the medium and long-term national development objectives and targets and medium and long-term objectives of Sector Development Plans.

4. Terms, forms, standards and methods, which the executors of investment projects use for identification, planning, approval, realization, and evaluation of investment projects are determined by the Ministry of Economic Development.

V. Formulation and selection of investment project concept papers

1. The investment project Concept Papers are prepared by the executors of the investment projects. Investment project Concept Paper is formulated to achieve the objectives of the medium-term national and sectoral development programs, as well as to define the size and preliminary cost of the planned investment project.

2. Based on the results of the Concept Paper, the executors select the investment project to be recorded formally in the Projects Register for further development of investment projects. An investment project with an approved Concept Paper is eligible for provisional financing starting from the third year of the Public Investment Program.

VI. Preparation and selection of priority investment projects

1. An investment project with a Concept Paper becomes a priority investment project after successfully undertaking Pre-feasibility Study of the investment project and receiving approval from the Ministry of Economic Development based on the results.

2. The executor of the investment project applies to the Ministry of Economic Development to qualify the investment project for undertaking a Pre-feasibility Study. Requirements for undertaking the Pre-feasibility Studies of the investment projects are determined by the Ministry of Economic Development.

3. The Ministry of Economic Development registers the investment project which has been approved for pre-feasibility study in the electronic Public Investment Program Registry. The Registry facilitates the monitoring and management of the Public Investment Programs.

4. The Pre-feasibility Study of the investment project is a project document containing the results of studies on achievability and effectiveness of the investment project that is carried out based on technical and economic analyses. Requirements for the technical and economic analyses in the Pre-feasibility Studies are determined by the Ministry of Economic Development.

5. Legal entities authorized to implement technical and economic analyses of investment projects bear responsibility in compliance with the laws of Azerbaijan Republic for validity and quality of the Pre-feasibility Studies for the realization of the investment project including realistic estimation of all risks which may affect full implementation and realization of the investment project and the achievement of its expected outcomes.

6. Financing of the Pre-feasibility Studies, Feasibility Studies and other expert analyses of investment projects is made from allocated budget programs by agreement of Ministry of Economic Development.

7. Based on the results of the Pre-feasibility Study, the Ministry of Economic Development in coordination with the investment project executor shall qualify the investment project as priority investment project. The projects programs, which are qualified as priority projects, are eligible for provisional financing starting from the second year of the Public Investment Program.

VII. Formulation and approval of list of the priority public investment projects

1. The Ministry of Economic Development, in consultation with representatives of the Ministry of Finance and of the executor agency of investment project, will prepare a project Appraisal Report to review the suitability of the investment project to qualify to be in the list of priority investment projects. The Appraisal Report may result in approval, rejection, request for full Feasibility Study, or request for specifically elaborated changes for potential reconsideration.

2. In order to include the priority investment projects with approved Pre-feasibility Studies in the list of priority investment projects, the executors of the investment projects shall apply to the Ministry of Economic Development meeting the requirements of:

- a) compliance of the objectives of the investment projects with the objectives of public investment policy and Public Investment Program,
- b) availability of approved pre-feasibility studies for the investment project.

3. The investment project executors shall apply to the Ministry of Economic Development for Appraisal Report evaluation after the Feasibility Study of the investment project is completed.

4. Selection of priority investment projects into the list of priority investment projects is carried out based on policy and technical criteria of prioritization including the following:

- a) the proper role of the government sector versus the private sector will govern the choice of investment projects for financing,
- b) the specific expected measurable outcomes that the investment projects designed to help achieve outcomes for medium-term Sector Development Plans and the medium-term national and sectoral development objectives,
- c) the impact of the major projects and programs on the poor,
- d) the recurrent costs estimates of investment project expenditures must be explicit including wages of new staff, costs of non-wage operations and regular repair and maintenance. The recurrent costs should be included in the medium term expenditures plans by the budget preparers to show the expected expenditures in the future budgets of state, Nakhchivan AR and extra-budgetary funds.
- e) the human capacity, and physical and regulatory ancillary infrastructure to implement and to sustain operations of the public investment projects to their planned outcomes.

VIII. Formulation and approval of priority investment projects in the draft Public Investment Program

1. The Ministry of Economic Development in cooperation with the Ministry of Finance approves the investment project from the list of priority investment projects in the draft Public Investment Program after consideration of:

- a) total public expenditure and investment expenditure and their relation to consolidated budget deficit excluding oil and gas revenues and to total debt in the framework of Social and Economic Development Forecasts,
- b) total public investment expenditure is allocated within each sector and across all the sectors appropriately for macroeconomic stability, sustainable economic growth, and public investment policy,
- c) the recurrent cost implications of investment projects on the estimates of future consolidated budget balances.

IX. Realization of the budget investment projects

1. Investment projects are realized in compliance with their Pre-feasibility Studies and/or Feasibility Studies approved in accordance with established Regulations.
2. The implementation activity specified in the investment projects is realized in compliance with the project estimate documentation approved in accordance with established Regulations.
3. The cost of investment projects is subject to correction based on the approved project estimate documentation and (or) concluded contracts on state procurement purchases.

X. Monitoring of realization of the investment projects

1. Monitoring of realization of the public investments projects provides for:
 - a) collection and explanation of information by the executors of the investment projects on the process and results of preparation and realization of investment projects,
 - b) providing quarterly information on the process and results of preparation and realization of investment projects to the Ministry of Economic Development by the executors of investment projects,
 - c) providing quarterly information on consolidated plan of financing and information on payments already made within the schedule of investment projects to the Ministry of Economic Development by the Ministry of Finance,
 - d) evaluation of current effectiveness of realization of investment projects by the Ministry of Economic Development based on the provided information about the process of realization of investment projects and on information of payments already made on investment projects,
 - e) submission of consolidated quarterly information on the process of realization of investment projects financed from the consolidated budget to the Cabinet of Ministers by the Ministry of Economic Development.
2. Based on the data of the monitoring of investments projects, as well as taking into consideration the existing and forecasted social and economic indicators, the Ministry of Economic Development submits proposals on measures for more effective realization of the investment projects to the Government of Azerbaijan Republic including:
 - a) take measures of standard and legal normative acts and other decisions of the Government of Azerbaijan Republic and local executive bodies directed to the effective realization of investment projects
 - b) in well-founded cases, stopping of or withdrawal from realization of investments projects
 - c) other measures, stipulated in the legislation of Azerbaijan Republic.

3. Terms, forms and schedule of submission of information provided for carrying out monitoring on realization of investment projects are determined by the Ministry of Economic Development.

XI. Evaluation of the effectiveness of the investment projects

1. The Ministry of Economic Development evaluates the effectiveness of projects and the effectiveness of public investment policy and Public Investment Program based on collected data on outcomes and effectiveness of the post-realization of investment projects.

2. Evaluation of effectiveness of investment projects is carried out by comparing of actual and planned expenses, actual and expected results of investments, as well as evaluation of factors that affected the effectiveness of investment projects.

3. Annual Reports on evaluation of the effectiveness of investment projects are submitted by:

- a) the executors of the investment projects to the Ministry of Economic Development by April 1 following the end of fiscal year
- b) the Ministry of Economic Development to the Cabinet of Ministers by June 1 following the end of fiscal year.

4. Terms, forms and schedule of submission of information provided for carrying out evaluation of effectiveness of investment projects and mechanism to resolve shortcomings are determined by the Ministry of Economic Development.

5. Summary information on annual evaluation of effectiveness of investment projects of the previous year is submitted by the Government of Azerbaijan to the Milli Mejlis of Azerbaijan Republic by October 1.

MEMORANDUM

**TERMS OF REFERENCE FOR THE ESTIMATION OF NATIONAL
PARAMETERS AND COMMODITY SPECIFIC CONVERSION
FACTORS (SHADOW PRICES) FOR AZERBAIJAN**

I. Background

Azerbaijan is currently enjoying an influx of oil revenues, finding itself at the onset of a 20-year oil and gas boom. The country faces the challenge of employing its natural resource wealth to meet urgent needs, while at the same time building a non-oil economy that will sustain the country after the resource boom. Investments in infrastructure and human development are critical inputs to the development of the non-oil economy.

USAID has financed a program, PIPE (mid-2005 – mid-2007), which has the primary responsibility of assisting in the building of the government's capacity to prepare and manage the Public Investment Program (PIP) –and to develop capacity to prepare investment policies. Part of the PIPE's objectives is to help train staff of the Ministry of Economic Development, the Ministry of Finance, and the line ministries in the economic aspects of project appraisal.

As part of this effort of enhancing the quality of the preparation of public sector investment projects this project is asking the consultant to estimate a key set of economic prices, referred to here as the national economic parameters of Azerbaijan. In addition, to the estimation of the national economic parameters the consultant is being asked to estimate a set of commodity specific conversion factors that covers most if not all of the international trade goods classifications (Harmonized Code). The consultant is also asked to prepare a further set of commodity specific conversion factors for 6 major non-traded commodity items.

II. Specific Tasks

- I. The consultant under these terms of reference is requested to complete the following activities:
 1. Estimate the economic opportunity cost of capital (EOCK) for Azerbaijan in a manner so that it can be used as the discount rate in the process of evaluating / appraising public investment projects for Azerbaijan.
 2. Estimate the relationship between the market rate of foreign exchange and the economic cost of foreign exchange (EOCFX) for Azerbaijan.
 3. Outline an operational approach for the estimation of the economic cost of labour for Azerbaijan. Specific examples should be made for at least 3 different regional and 6 different occupational classifications.

With the completion of the calculation of three basic National Parameters, a methodology will be developed to calculate:

4. economic prices of a wide range of internationally tradable goods and services according to the harmonized code of traded commodities, and;
5. economic prices for 5 or 6 key non-tradable goods and services.
6. Using these calculations, a commodity by commodity based computerized system should be designed to calculate and present in an easily accessible format the conversion factors of both tradable as well as for the most important non-tradable goods and services. This software will be user-friendly and should have the capability to be easily upgraded as needed over time when changes are made in tax and subsidy policies. This computerize system should apply to both tradable as well as non-tradable goods and services.

III. Detailed Tasks and Deliverables

1. Estimation of EOCK: In order to be able to determine whether the project should be implemented the economic net present value (NPV) of the project should be estimated. This criterion requires the use of a discount rate in order to be able to compare the benefits and the costs that occur in the time periods over the life of the investment. The EOCK has been found to be the most appropriate discount rate to be used when estimating the NPV of a project. This discount rate should not only be used for projects that are financed only by public funds, but also projects that are public-private type or solely privately funded as well.

Estimates of the EOCK for a country should be derived from the realities of the country in question. There needs to be practical framework for the estimation of the EOCK. The model will have to consider the economic cost of raising funds from the capital market. This will mean, the model for calculation will not only take into account the opportunity cost of funds diverted from the private domestic investment and private consumption, but also marginal cost of funds obtained from foreign sources.

Deliverable 1: The output of this work will be a scientific paper containing the methodology and estimation of the economic opportunity cost of capital for Azerbaijan

2. Estimation of the economic cost of foreign exchange (EOCFX): In order to be able to make an economic cost benefit analysis, there is a need to choose a numeraire in which all costs and benefits are evaluated. The most common practice has been to express all costs and benefits in terms of domestic currency at the domestic price level. With the use of this numeraire, adjustments need to be made for all transactions that are made with international traded goods and involve foreign exchange.

Since the demand for imported goods is generally distorted by tariffs and non-tariff barriers. For exports, the supply of goods may be distorted by subsidies and export taxes. Hence, there will be a difference between the economic cost of foreign exchange and the market rate for foreign exchange. In addition, there are

further distortions such as value-added-taxes and other indirect taxes that need to be considered in determining the economic cost of foreign exchange.

Economic price of foreign exchange should be estimated using a simple general equilibrium model of Azerbaijan's economy. In this analysis different cases should be considered. They should include, funds sourced in the domestic capital market and used to purchase internationally traded goods. Funds sourced in the domestic capital market and used to purchase non-traded goods. Funds sourced from foreign savers and used to purchase internationally traded goods. Funds sourced from foreign savers and to purchase domestic goods.

Deliverable 2:The output of this work will be a scientific paper containing the methodology and estimation of the economic opportunity cost of foreign exchange for Azerbaijan

3. **An approach to the estimation of the economic cost of labour for Azerbaijan:** Unlike the EOCK and the economic cost of foreign exchange, no single parameter can be estimated for the economic opportunity cost of labour (EOCL). The EOCL varies by occupation, by skill, by working conditions and by regions. The labour requirements for each project will tend to vary accordingly.

Since it is impossible to provide a comprehensive set of values for the EOCL that can be used in the evaluation of all projects, a framework will be prepared which will be serving as a reference guide for the estimation of the EOCLs across a range of circumstances typical to Azerbaijan.

Deliverable 3:The output of this work will be a scientific paper containing the methodology and estimation of the economic opportunity cost of labour for three regions and six occupations in Azerbaijan

4. **Estimation of the economic prices and conversion factors for Tradable goods and services:** For a range of basic commodities the relationship between their economic values and their market price (a conversion factor) will be calculated.

A model will be developed that will incorporate financial values with tariffs and taxes, handling and transportation costs, and exchange rate distortions to come up with economic values of commodities. Part of the work will include the process of identifying the major distortions that distort / affect the pricing availability of traded goods.

This process will also lead to the determination of a conversion factor for each item in a large set of tradable goods. The conversion factors will enable commodities with financial prices to be able to be converted in to economic prices. In other words, when project evaluation is carried out, availability of the conversion factors will enable the financial cash flows to be converted into the economic cost benefit in the economic resource statement.

Deliverable 4:The output of this work will be a scientific paper containing the methodology and estimation of the economic prices for a wide range of tradable commodities for Azerbaijan

5. Estimation of the shadow (economic) prices for Non-Tradable goods and services: A methodological framework will be developed for estimating the economic benefits /costs of a good or a service produced / used by a project. There is a need for estimating the shadow prices of non-tradable goods and services as we can not assume the world prices of goods and services as given. This is because the estimation of the economic prices will be based on the local demand and supply prices. In the study local market distortions will be taken into consideration and needed adjustments will be made to arrive at the economic prices for non-tradables.

An analysis will be made on identifying the most important inputs and outputs of non-tradables. These may be including electricity, domestic truck transportation, Railways, building construction, construction of basic utilities and communication.

Deliverable 5: The output of this work will be a scientific paper containing the methodology and estimation of the economic prices for five or six of the most important non-tradable commodities that enter as inputs into the projects undertaken in the public investment program of the government of Azerbaijan

6. A commodity specific conversion factors software package will be designed and made operational to accommodate all the Azerbaijan tradable commodities and for the non-tradable goods and services for which conversion factors have been estimated. This software will be user-friendly, enabling non-economists from Sector Ministries and Agencies to use them to move from a financial analysis of the projects they are analyzing to economic analysis. The software should also be relatively easy to upgrade as the market imperfections in Azerbaijan change.

Deliverable 6: The output of this work will be a computer software package suitable for storing on a CD or on the internet containing the methodology and estimation of conversion factors for wide range of tradable commodities and selected non-tradable commodities for Azerbaijan.



USAID
FROM THE AMERICAN PEOPLE

Public Investment Policy Project

Memorandum

To: Mustafa Besim, Assistant Professor, Eastern Mediterranean University

From: Mete Durdag, PIPP COP

CC: Christos Kostopoulos, WB; Farid Bakhshiyev, USAID; David Tardif-Douglin, DAI/HO.

Date: 1/24/2008

Re: Comments on the Proposed Terms of Reference for the Estimation of National Parameters and Commodity Specific Conversion Factors (Shadow Prices) for Azerbaijan

Dear Mr. Besim:

Thank you for providing us in November 21, 2006 the initial ideas in reference to the Terms of Reference to estimation of the National Parameters and commodity specific conversion factors (CSCF) in Azerbaijan. Your proposal found us in the midst of the delivery of two planned multi-week trainings in Integrated Project Analysis and hence I apologize that the review of the proposed TOR took some time.

Indeed, the TOR for the research work with definitive results in producing five scientific papers covering all major shadow prices for commodities and production of the CD with the database of CSCF may be a good scope for scientific academic research. However, as we repeatedly voiced during our several meeting with you, we are the capacity-building technical assistance project. The Integrated Project Analysis (IPA) and necessary practical and applied building blocks (including definition and application of shadow prices for the economic and social analysis) is viewed by us as a vehicle in support for discerning good, economically viable projects from unjustified and hastily prepared ones (which is the case now).

Rationale

The profound review of projects for its financial, economic, technical, distributional etc. feasibility for efficiency needs to rest on a solid, comprehensive, predictable and resource-supported public investment policy. Hence, our Project was designed and is being implemented in helping the Government of Azerbaijan to develop its institutional capacity in support for: (a) long-term national and sector development objectives, strategies and investment policies; b) improved public sector budget formulation; c) investment project preparation, appraisal and monitoring; and d) proficiency and knowledge of the staff of GOAZ counterpart organizations in public investment policy and efficiency. I believe, in the course of our meetings with you early November you have received a good feeling of our technical approach, impact-oriented scope of activities, and an impetus to involve GOAZ counterpart organizations fully in the process and make them learn and practice, so

that they will fully deliver and perform well after the PIP Project graduates. In the light of this agenda please find below our recommendations with consideration to revisit the TOR proposed by you, and contextualize the usefulness of the proposed scope of work.

Technical Tasks and Sequence

The objective of the effort is to develop National Parameters for Azerbaijan and use the country's shadow prices in public investment planning and economic analyses. The use of shadow pricing in appraisal will help to justify economic viability of the development programs/projects and foresee yields to the economy at large. A systematic use of shadow pricing in program/project appraisal will reveal sectors of the economy where capital investments can play a crucial role in resolving outstanding socio-economic issues and boost national and regional economic development. Finally, use of shadow pricing will allow the Government of Azerbaijan to decline economically unsound programs/projects, and avoid stretching resources to individual projects of insignificant importance. Conversely, the widespread use of shadow pricing and alternative scenarios will allow the Government to mobilize its resources and invest in program/projects with the multiple cross-sector outcomes.

The task of developing of a set of "National Economic (Shadow) Price Parameters in Azerbaijan is a tall order that requires inputs from many parties and, foremost, the government, economic research think tanks, IFIs, banking and business sectors as well as independent experts in the field to arrive at the realistic economic pricing and adjustments needed in the medium-term perspective.

The International Donor Community, so active through IMF, the World Bank Group, EBRD, UNDP, ADB and others, have been continuously striving for the budget expenditure efficacy. The pressure for public expenditure efficiency has become intensified these years, given the enormous expenditures for capital outlays, supported through the proceeds from oil sales. Hence, a combination of top-level political pressure for the adoption of sound PIP policy, methodology and operating instructions combined with a good methodology in economic price use seems to be the only correct approach to reform this expenditure area.

In the light of this the subject scope shall envisage the following sequential organizational, technical research and implementation phases:

Phase I: Organizational and Information-gathering

In this phase the importance of the Shadow Pricing work needs to be voiced to the Ministry of Economic Development, the Ministry of Finance, the National Bank of Azerbaijan and other stakeholder organizations (e.g., the Cabinet of Ministers) to organize, coordinate and facilitate information-gathering for the consequent analysis. From our perspective, the Azerbaijan Center of Economic Reform (CER), the MOED scientific-research institution, will be tasked to be fully engaged in this work. In the light of the recent proposals for MOED institutional and functional reorganization CER may well assume the lead role in economic policy research work and planning using modern economic and financial consistency models; methodological work on Integrated Project Analysis; and serve as a sustainable and competent training unit for public servants concerned in the above technical areas.

Hence, we suggest that the Task Force Group is created, being led by MOED, and involve the concerned experts from CER, the PIP Project, the World Bank, IMF and other donors (UNDP), and external international experts. The Task Force Group will prepare a definitive plan of actions in support for a) shadow price definition for major categories of commodities (as opposed to

individual 80,000 items of commodities); b) develop a set of National Parameters for Azerbaijan; c) review nominal and real unit costs (net of market distortions) and user fees employed in Azerbaijan; d) organize central database with the periodic update; and e) require and enforce public funds requestors use realistic user fees and costs for economic and social analysis.

With this in mind, it will be necessary to: a) undertake an analysis of the true opportunity cost or marginal valuation of a product or resource or service; b) prepare the National Parameters; c) identify major implicit and explicit transfers from the state budget in support for productive sectors (e.g., of 2.5 cents/kWh generated GOAZ provides subsidy from state budget transfers in the amount of 1 cent/kWh to cover costs of the imported gas for the generating power plants); and d) make time value factor adjustments necessary for the 4 year planning horizon with annual review and adjustment per inflation and duties.

Appropriate channels for information-gathering need to be established with the objective to have one consistent operational depository for International Lenders, IFIs and GOAZ to use for economic and social appraisal of investment projects.

To summarize, the major sequence of activities during this stage will be:

- a) establish the Task Force Group to be led by MOED/CER;
- b) agree TOR and assistance role of the donors;
- c) gather pricing and cost (nominal and real) information for major commodities and services in Azerbaijan and conclude on the tax and other government interventions for a commodity cost and price in Azerbaijan;
- d) develop methodology for CSCF determination and periodic review;
- e) conduct training of CER and other GOAZ staff (in line ministries) on practical means in application of the methodology.

Phase II: Establish Database of CSCF in Azerbaijan

It is important that GOAZ will benefit fully from this technical undertaking and maintain a database of major commodity costs in one centrally established unit. The unit may choose to publish Annual Statistic Bulletins for CSCF in Azerbaijan. With time, and per usefulness, GOAZ may wish to further elaborate the composition of CSCF and standardize coding structure to be fully conformant with that used by the State Statistics and Tax Administration. The staff of MOED/CER will need to be fully operational and capable to maintain the statistics and database.

To summarize, the major output elements from this phase may be:

- a) establish a database of cost for major commodity groups;
- b) provide training on update methodology;
- c) organize presentation to GOAZ on the purpose and usefulness of the database;
- d) all public-funded organizations are to mandatory use the standardized database for project preparation and appraisal purposes.

Phase III. Application of National Parameters in Capital Expenditure Planning and Cost-Benefit/Cost-Effectiveness Analysis

The final phase of this undertaking is of crucial importance and is aimed to ensure practical use of the National Parameters and CSCF Database for execution of economic and social analyses. To date, the PIP Project has conducted 4 rounds of trainings in Integrated Project Analysis involving over 100 senior managers and 100 practitioners from GOAZ. During this training the economic

section of project evaluation and practical application was addressed through the review of the World Bank-prepared project feasibility studies.

Hence, a further specialized training, involving GOAZ project analysts is necessary in institutionalizing their capacity to prepare and appraise social and economic viability of sector-specific investment projects. Cost-benefit economic analysis will be applied to productive sectors with quantified outputs. Cost-effectiveness analysis will be applied to social sectors based on costs, quality of output and benefits gained.

To summarize, the major output elements from this phase may be:

- a) Training methodology for economic cost-benefit and cost-effectiveness analysis for productive and social sectors, respectively;
- b) Technical training sessions involving all sector ministries staff concerned with investment project preparation.

Conclusion

To summarize our approach, the host government will significantly benefit from the following outputs:

1. Preparation of CSCF for major commodity goods and services and National Parameters for economic planning and project preparation/appraisal purposes;
2. Building the necessary technical capacity of appropriate GOAZ to fully maintain the database of CSCF and National Parameters;
3. Methodology of economic cost-benefit and cost-effectiveness analysis is in place and GOAZ staff trained on its use;
4. State- and public-funded organizations are required to use real prices and costs in PIP project preparations; and
5. GOAZ will consider policy interventions to introduce modern user cost and user fees reflecting market and real costs, rather than inflated 1991 prices, costs and tariffs.

With these objectives in mind I ask you to consider anew your proposal with placing accent on institutionalizing the GOAZ capacity through doing this work jointly with the team of International Experts and local professionals. It will be an efficient contribution for international experts to with the methodological part through teaching the MOED/CER staff, and then coordinate information-gathering remotely, from home country. The most important, in our view, is the practical use of National Parameters, shadow prices in economic analysis of PIP projects in Azerbaijan. This effort will require data and training. We learned recently that the USAID PIPP activity may be extended for some time. This will provide basis for the full-scale implementation of all phases as we suggested above.

I suggest that, in my absence, Andrei Parinov, DCOP will coordinate the technical scope of work with you and then discuss with USAID and DAI/HO the implementation plans.



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Attachment 5.

**PUBLIC INVESTMENT POLICY PROJECT
TRAINING MATERIALS IN REFERENCE TO THE ROUNDS
III&IV OF THE DAI/PIPP- CER TRAINING PROGRAM
PUBLIC INVESTMENT ANALYSIS AND
MANAGEMENT**

NOVEMBER 14-30, 2006

DECEMBER 4-19, 2006

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PUBLIC INVESTMENT POLICY PROJECT
TRAINING MATERIALS IN REFERENCE TO THE
ROUNDS III&IV OF THE DAI/PIPP- CER TRAINING
PROGRAM

PUBLIC INVESTMENT ANALYSIS AND
MANAGEMENT

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

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SUMMARY EVALUATIONS OF PARTICIPANTS: TECHNICAL WORKSHOP ROUND III

SUMMARY EVALUATIONS OF PARTICIPANTS: TECHNICAL WORKSHOP ROUND IV

AZTECH is one of the leading companies within the Azeri ICT marketplace. The main area of its business is sale and after sales service of the broad range of computers, peripherals, telecommunication and office equipment meeting the requirements of Medium and Large Enterprises, and also development and realization of large-scale comprehensive automation and system integration projects.

Basing to the professional background that was accumulated with a point sale of "Digital Store" driven to the official start of business with Aztech name in 2000.

Since its establishment, AZTECH managed to occupy the top positions for a wide diversity of products and services within the local market, to gain authority and trust of numerous customers that include both corporate clients and consumers.

In the past few years we have:

- Introduced new printing and wireless network access and data transmission technologies into the Azeri marketplace.
- Streamlined and enhanced Local Area Networks.
- Developed and realized a large project on creation of centralized database and maintenance of remote access of the city notary's offices to it. The project doesn't have analogues in the republic.

The central business ethics of AZTECH is to meet customers' existing and potential demands through providing them with high-quality products and services. This principle is of prime importance for the company's quality-control strategy. Therefore, we determined the following priorities in this field:

- Detailed eliciting of customers' needs.
- Rendering of highly qualified services and technical support. Personnel's continuous professional development maintenance as well as the company's general intellectual potential enhancement.
- Establishment of sound relations directly with original production manufacturers and marketing of only cutting-edge technologies withi

**TRAINING PROGRAM FOR MANAGEMENT GROUP (ROUND III)
OUTLINE OF SCHEDULES AND KEY THEMES**

**INTEGRATED PROJECT ANALYSIS
NOVEMBER 14-15, 2006, PARK INN HOTEL**

November 14 /Day 1 MACROECONOMIC- SECTORAL- BUDGETARY LINKAGES

9:00 – 9:15 Introduction and Overview of the Workshop

9:15 – 10:45 Part 1:

Formulation of the Public Investment Program as a Projects Planning Framework

10:45 – 11:00 – Coffee Break

11:00 – 12:45 – Part 2:

Sector Strategic Development Planning as a Framework for Project Development

12:45 – 13:30 – Lunch

13:30 – 15:00 – Part 3:

Integrated Project Analysis in the Project Life-Cycle

November 15/Day 2 PIP AND DETERMINATION OF PROJECTS OF PIP

9:00 – 10:45 Part 1:

Preparation and Approval of PIP

10:45 – 11:00 – Coffee Break

11:00 – 12:45 – Part 2:

Preparation and Approval of PIP

12:45 – 13:30 – Lunch

13:30 – 15:00 – Part 3:

Determining the Projects content of PIP

		REPUBLIC OF AZERBAIJAN		
		MINISTRY OF ECONOMIC DEVELOPMENT		
		PUBLIC INVESTMENT POLICY PROJECT (PIPP)		
		TRAINING WORKSHOP FOR TECHNICAL STAFF (ROUND III)		
		November 16 - 30, 2006		
		THE COURSE PROGRAM		
Date	Time	Course Topic	Practice/Class Discussion Topic	Practice Leader
16-Nov	9:00-10:30	Formulation of the PIP as a Projects Planning Framework		
	11:00-12:30	Sector Strategic Development Planning		
	13:30-15:00	Integrated project Analysis	Discussion of Course Topic wrt the sample projects	
20-Nov	9:00-10:30	Preparation and Approval of the PIP		
	11:00-12:30	Joint/PIP Call Circular	Filling in the Joint/PIP Call Circular for the sample projects	Hadji Husseyinov
	13:30-15:00	Preparation & Approval of the PIP (cont.)	Negotiation of Joint/PIP CC between LMs and MOED/MOF	Nigar Ismaylova
21-Nov	9:00-10:30	Processing Projects into the PIP	Project Identification and Project Concept Paper w.r.t. the sample projects	Ramil Maharramov
	11:00-12:30	Processing Projects into the PIP (cont.)	Preparation and Processing of Pre-Feasibility Report w.r.t. the sample projects	Hadji Husseyinov & Nigar Ismaylova
	13:30-15:00	Preparation and Approval of Project Appraisal Document	Application of a good PAD test to the sample projects	Ramil Maharramov
22-Nov	9:00-10:30	Prioritization of Projects: Macro- & Micro-Policy-Based Prioritization		
	11:00-12:30	Policy-Based Prioritization (cont.)	Ranking and Weighting Systems	Bakhish Ahmadov
	13:30-15:00	Quantitative Prioritization: Financial Analysis of Projects		
23-Nov	9:00-10:30	Financial Analysis of Projects (cont.): Some Analytic Concepts	Discussion w.r.t. the sample projects	Nigar Ismaylova
	11:00-12:30	Financial Analysis of Projects (cont.): FIRR and NPV	Calculation of FIRR and NPV for the Azerenergy Project	Nigar Ismaylova
	13:30-15:00	Financial Analysis (cont.): Discounting	Discounting and IRR/NPV	Elvin Efendi

Date	Time	Course Topic	Practice/Class Discussion Topic	Practice Leader
24-Nov	9:00-10:30	Financial Analysis (cont.): Sensitivity and Risk Analysis	Sensitivity and Risk Analysis	Bakhish Ahmadov
	11:00-12:30	Financial Analysis of Non-Commercial Projects	Discussion on the sample projects	Hadji Husseyinov
	13:30-15:00	Mid-Term Test		Sabira Shihaliyeva
27-Nov	9:00-10:30	Economic Analysis of Projects: Valuation of Economic Costs and Benefits		
	11:00-12:30	Shadow Prices of Traded and Non-Traded Goods and Services (conversion factors)		
	13:30-15:00	Shadow Price of Land; Shadow Wage Rate	Shadow Wage Rate	Elvin Efendi
28-Nov	9:00-10:30	Accounting Rate of Interest: Economic Discount Rate		
	11:00-12:30	Shadow Exchange Rate	Discussion on its Policy Implications (growth of the non-oil sectors)	Bakhish Ahmadov & Elvin Efendi
	13:30-15:00	Economic Viability: A Suggested Approach		
29-Nov	9:00-10:30	Social Analysis of Projects	Distribution of Benefits and Poverty Impact	Elvin Efendi
	11:00-12:30	Sustainability of Projects: Fiscal and Environment Analysis	Environmental Analysis	Yashar Mammadov
	13:30-15:00	Institutional Analysis of Projects		Yashar Mammadov
30-Nov	9:00-10:30	Final Test		Sabira Shihaliyeva
	11:00-12:30	Graduation Ceremony & Tea Party		Sabira Shihaliyeva
November 16 - 30, 2006	10:30-11:00	Coffee Break		Sabira Shihaliyeva
	12:30-13:30	Lunch Break		& Nizami Javadov

**TRAINING PROGRAM FOR MANAGEMENT GROUP (ROUND IV)
OUTLINE OF SCHEDULES AND KEY THEMES**

**INTEGRATED PROJECT ANALYSIS
DECEMBER 4-5, 2006, PARK INN HOTEL**

December 4 /Day 1 MACROECONOMIC- SECTORAL- BUDGETARY LINKAGES

9:00 – 9:15 Introduction and Overview of the Workshop

9:15 – 10:45 Part 1:

Formulation of the Public Investment Program as a Projects Planning Framework

10:45 – 11:00 – Coffee Break

11:00 – 12:45 – Part 2:

Sector Strategic Development Planning as a Framework for Project Development

12:45 – 13:30 – Lunch

13:30 – 15:00 – Part 3:

Integrated Project Analysis in the Project Life-Cycle

December 5/ Day 2 PIP AND DETERMINATION OF PROJECTS OF PIP

9:00 – 10:45 Part 1:

Preparation and Approval of PIP

10:45 – 11:00 – Coffee Break

11:00 – 12:45 – Part 2:

Preparation and Approval of PIP

12:45 – 13:30 – Lunch

13:30 – 15:00 – Part 3:

Determining the Projects content of PIP

REPUBLIC OF AZERBAIJAN					
MINISTRY OF ECONOMIC DEVELOPMENT					
PUBLIC INVESTMENT POLICY PROJECT (PIPP)					
TRAINING WORKSHOP FOR TECHNICAL STAFF (ROUND IV)					
December 6 - 19, 2006					
THE COURSE PROGRAM					
Date	Time	Course Topic	Practice/Class Discussion Topic	Practice Leader	
December Wednesday	6th	9:00-10:30	Formulation of the PIP as a Projects Planning Framework		
		11:00-12:30	Sector Strategic Development Planning		
		13:30-15:00	Integrated project Analysis	Discussion of Course Topic wrt the sample projects	
December Thursday	7th	9:00-10:30	Preparation and Approval of the PIP		
		11:00-12:30	Joint/PIP Call Circular	Filling in the Joint/PIP Call Circular for the sample projects	Hadji Husseyinov
		13:30-15:00	Preparation & Approval of the PIP (cont.)	Negotiation of Joint/PIP CC between LMs and MOED/MOF	Nigar Ismaylova
December Friday	8th	9:00-10:30	Processing Projects into the PIP	Project Identification and Project Concept Paper w.r.t. the sample projects	Ramil Maharramov
		11:00-12:30	Processing Projects into the PIP (cont.)	Preparation and Processing of Pre-Feasibility Report w.r.t. the sample projects	Hadji Husseyinov & Nigar Ismaylova
		13:30-15:00	Preparation and Approval of Project Appraisal Document	Application of a good PAD test to the sample projects	Ramil Maharramov
December Monday	11th	9:00-10:30	Prioritization of Projects: Macro- & Micro-Policy-Based Prioritization		
		11:00-12:30	Policy-Based Prioritization (cont.)	Ranking and Weighting Systems	Bakhish Ahmadov
		13:30-15:00	Quantitative Prioritization: Financial Analysis of Projects		
December Tuesday	12th	9:00-10:30	Financial Analysis of Projects (cont.): Some Analytic Concepts	Discussion w.r.t. the sample projects	Nigar Ismaylova
		11:00-12:30	Financial Analysis of Projects (cont.): FIRR and NPV	Calculation of FIRR and NPV for the Azerenergy Project	Nigar Ismaylova
		13:30-15:00	Financial Analysis (cont.): Discounting	Discounting and IRR/NPV	Elvin Efendi

Date	Time	Course Topic	Practice/Class Discussion Topic	Practice Leader
December 13th Wednesday	9:00-10:30	Financial Analysis (cont.): Sensitivity and Risk Analysis	Sensitivity and Risk Analysis	Bakhish Ahmadov
	11:00-12:30	Financial Analysis of Non-Commercial Projects	Discussion on the sample projects	Hadji Husseyinov
	13:30-15:00	Mid-Term Test		Sabira Shihaliyeva
December 14th Thursday	9:00-10:30	Economic Analysis of Projects: Valuation of Economic Costs and Benefits		
	11:00-12:30	Shadow Prices of Traded and Non-Traded Goods and Services (conversion factors)		
	13:30-15:00	Shadow Price of Land; Shadow Wage Rate	Shadow Wage Rate	Elvin Efendi
December 15th Friday	9:00-10:30	Accounting Rate of Interest: Economic Discount Rate		
	11:00-12:30	Shadow Exchange Rate	Discussion on its Policy Implications (growth of the non-oil sectors)	Bakhish Ahmadov & Elvin Efendi
	13:30-15:00	Economic Viability: A Suggested Approach		
December 18th Monday	9:00-10:30	Social Analysis of Projects	Distribution of Benefits and Poverty Impact	Elvin Efendi
	11:00-12:30	Sustainability of Projects: Fiscal and Environment Analysis	Environmental Analysis	Yashar Mammadov
	13:30-15:00	Institutional Analysis of Projects		Yashar Mammadov
December 19th Tuesday	9:00-10:30	Final Test		Sabira Shihaliyeva
	11:00-12:30	Graduation Ceremony & Tea Party		Sabira Shihaliyeva
December 6 - 19, 2006	10:30-11:00	Coffee Break		Sabira Shihaliyeva
	12:30-13:30	Lunch Break		& Nizami Javadov

Public Investment Policy Project
Workshop for Management Group (Round III)
November 14-15, 2006, Park Inn Hotel

List of Participants

No.	Name	Position/Dept.	Ministry/Agency	Contacts	Day 1	Day 2
1	Mazahir Agazade	Head of Dept. of Financing of National Economy	MOF	493 0029		
2	Vahid Huseynov	Head Advisor	COM	492 5645		
3	Fuad Ibrahimov	Dty Head of Dept., SPSEDR	MOED	492 1819 211 0087		
4	Sabuhi Aslanov	SPPRSD	MOED	598 0047 ext. 127		
5	Mammad Asadov	Head of Science, Project, Construction and International Relations Dept.	CIWE	493 8011		
6	Teymur Osmanov	Dty Head of Science, Project, Construction and International Relations Dept.	CIWE	493 8011		
7	Ramiz Vekilov	Head of Joint Management of Melioration and Irrigation Construction	CIWE	438 4421		
8	Khalida Masimova	Head of Industry Dept.	MOIE	431 0589		
9	Rahman Hajiyev	Head of Investment Program and Projects Preparation Dept.	MOA	493 5874		
10	Farhad Gambarov	Dept. Dty Head, Sector Head	MOA	493 1206		
11	Imran Hajiyev	Sector Head	MOA	498 2339		
12	Novruz Mammadov	Head of State Enterprises Activity Coordination Dept.	MOCIT	493 4342		
13	Nuru Jahangirov	Senior Advisor of Finance, Accounting and Economic Analysis Dept.	MOCIT	598 5135		
14	Faig Jafarov	Head of Finance and Economic Development Dept., AZTELEKOM Production Unit (Company)	MOCIT	598 3790		
15	Ruslan Abdulalimov	Head of Investment and Technical Programs Dept.	MOCT	598 0015 332 9359		
16	Khuraman Ibrahimova	Dty Head of Dept. of Taxation Policy and Revenues	MOF	493 4041 213 9817		
17	Matanat Rasulova	Head of Scientific Researches Dept.	CER, MOED	430 0170		
18	Yashar Mammadov	Leading Specialist	CER, MOED	430 0170		
19	Bagish Ahmadov	Leading Specialist	CER, MOED	430 0170		
20	Elvin Efendi	Leading Specialist	CER, MOED	430 0170		
21	Shahin Sadigov	PIU	MOENR	667 0836		
22	Dilara Ibrahimova	Acting Head of Economy Dept.	MOCT	493 5040		
23	Orkhan Kerimov	Dty Head of Economic Dept.	MOE	496 9511		
24	Zamina Hasanova	Senior Advisor of Finance and Economic Dept.	MOH	493 7062		
25	Shahla Nasirova	Senior Advisor of Finance and Economic Dept.	MOH	493 7656		
Total					22	24

30	Jahandar Gadirov	Scientific Researches Dept.	CER	356 8284 431 0993										
31	Agil Asadov	Senior Scientific Associate, Analytical Overview Dept.	CER	370 6970 431 5059										
32	Solmaz Imanova	Senior Advisor, Health Units' Development Planning Sector	MOH	598 4270										
33	Yashar Aliyev	Lawyer, Administration of Pending Construction Units	MOH	493 1540										
34	Ilkin Mejidov	Scientific Associate	CER	684 8326 422 3191										
Total														
					21	24	22	25	25	26	23	25	26	27

Public Investment Policy Project
Workshop for Management Group (Round IV)
December 4-5, 2006 Nesimi Room, Park Inn Hotel

List of Participants

No.	Name	Position/Dept.	Ministry/Agency	Contacts	Day 1	Day 2
1	Mirgasim Abasov	Head of Investment Policy Sector, Finance and Credit Dept.	MOT	433 9950 433 9917		
2	Javid Mammadov	Dty Head of Dept. of Financing of Social Sectors	MOF	5963612		
3	Zafar Rzayev	Head of Rayon Budget Formulation and Implementation Analysis, Budget Dept.	MOF	4938408		
4	Gulshan Hajiyeva	Senior Advisor, Dept. of Finance and Accounting	MOENR	4387075		
5	Mahabbat Mammadov	Head of the Dept. of Monitoring for Implementation of State and International Programs	MOIE	2128211 4319437		
6	Ramiz Rzayev	Head of Investment and Reconstruction of Industrial Projects Dept.	MOIE			
7	Saleh Binnatov	Deputy Head of Health Units' Development Planning Sector	MOH	5815569 4935944		
8	Kazim Kazimov	Head of Health Units' Development Planning Sector	MOH	598 5010		
9	Orkhan Kerimov	Deputy Head of Economic Dept.	MOE	496 9511		
10	Elvin Rahimov	Head of PIU for Education Sector Development Projects	MOE			
11	Latif Novruzov	Senior Engineer, AZDOVLETSUTESLAYIHE Institute	CIWE	4388385 050- 4950039		
12	Khosrov Imamaliyev	Senior Engineer, Joint Management of Irrigation and Melioration Construction Projects	CIWE	5511144 4386568		
13	Nizami Javadov	Head of Marketing and PR Dept.	CER	4301717		
14	Natig Pashayev	Head of PIP Division, DEPF	MOED	369 4644		
15	Zaur Valehov	Senior Engineer, Construction Agency	MOCT	6146903 4411326		
16	Hikmet Kerimov	Sector Head, Dept. of Investment, Program and Project Preparation	MOA	5983302 3198252		
17	Bagish Ahmadov	Leading Specialist	CER			
18	Shahin Sadigov	PIU	MOENR	4926023 6670836		
19	Khalil Ramazanov	Deputy Head of Woods Development Dept.	MOENR			
20	Yashar Mammadov	Leading Specialist	CER	3406520		
Total					15	16

12	Tarana Gilinjkhanova	Leading Advisor, Economic Dept.	MOIE	431 8012														
13	Jeyhun Mammadov	Advisor, Dept. of Information Systems of Education Management	MOE	670 3632 496 3471														
14	Namig Mammadov	Leading Advisor, Dept. of Strategic Analysis, Planning and HR Management	MOE	451 3051 496 3193														
15	Peri Amirova	Economist, Economic Dept.	MOH	050- 4679408 493 1540														
16	Zakir Ahmadov	Economist, Economic Dept.	MOH															
17	Tahir Ismaylov	Senior Advisor, Dept. of Science, Project, Construction and International Relations	CIWE	493 8011														
18	Vusal Samadov	Senior Advisor, Dept. of Science, Project, Construction and International Relations	CIWE	669 5747 493 1363														
19	Suleyman Jalilov	Senior Advisor, Dept. of Preparation of Investment Programs and Projects	MOA	055- 7702213 498 1208														
20	Anar Mirzoyev	Advisor, State Credit Agency for Agriculture	MOA	354 0093														
21	Namig Nabiyeu	Deputy Head of Finance and Investment Dept., TELERADIO Production Unit (Company)	MOCIT	218 7447 439 8795														
22	Gojayeu Emil	Leading Scientific Associate,	CER	050- 4481559 497 4754														
23	Guliyev Shovgi	Leading Scientific Associate,	CER	386 7564														
24	Shalala Tagiyeva	Economist, Financial and Wage Dept.	MOCIT	321 2666 421 8599														
Total					18	21	20	22	21	23	21	20	20	23				



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THE PUBLIC INVESTMENT POLICY PROJECT

**Training Workshop for Technical Staff on
Integrated Project Analysis**

**FORMULATION OF THE PUBLIC
INVESTMENT PROGRAM AS A
PROJECTS PLANNING FRAMEWORK**



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FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A PROJECTS PLANNING FRAMEWORK

Introduction

- How do you define “public investment”?
- Is investment more important than consumption or not? Why?
- Accordingly, should GOAZ use public investment as a policy tool?
- For answering the above questions, use as examples an energy and an education project.



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FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A PROJECTS PLANNING FRAMEWORK

Definition of Public Investment

- Investment = Final goods & services produced but not consumed in a given period and used in increasing the existing production capacity.
- Public investment = investment undertaken by the public sector agencies.
- Public sector = State agencies + LAs + Municipalities + SOEs.

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FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A PROJECTS PLANNING FRAMEWORK

Importance of Public Investment

- As part of total effective demand, stimulates production and affects economic stability.
- Increases the production capacity (growth).
- Improves technology, efficiency, and productivity
- Affects the future level, composition, and distribution of public and private consumption.
- Affects the level and structure of private investment.

4



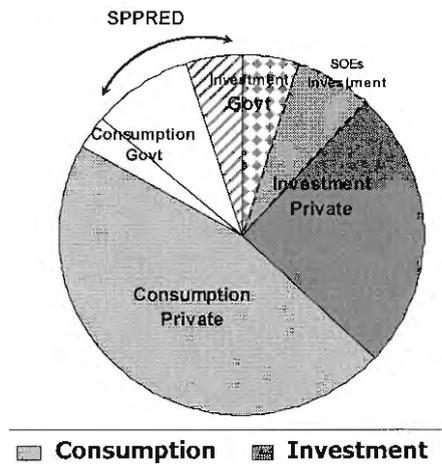
**FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A
PROJECTS PLANNING FRAMEWORK**

Public Investment Policy

- Public investment will have all effects noted in the last slide whether we like them or not.
- Hence, we better try to program them rather than allow ad hoc decisions of the public agencies randomly shape them up.
- Also, the success of most other socio-economic policies of GOAZ depends on the level, composition, and distribution of public investments; hence, on the success of PIP.



AZERBAIJAN TOTAL RESOURCE USE IN 2004





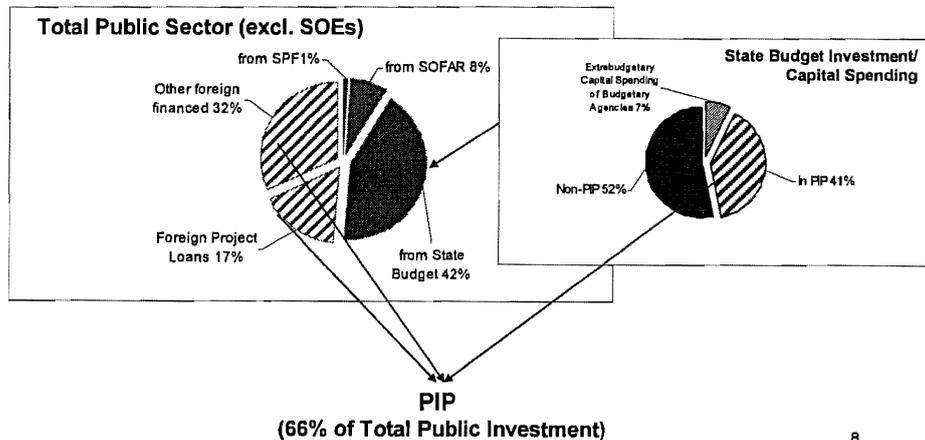
**FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A
PROJECTS PLANNING FRAMEWORK**

Current Practice in Azerbaijan: Questions

- Do you think GOAZ has an effective Public Investment Policy or not? Why?
- Where and how is it formulated?
- How comprehensive do you think it is?
- Do LMs/Agencies get (need) effective guidance from GOAZ's PIP in project development and selection?



PUBLIC SECTOR INVESTMENT 2005 (PLANNED)





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FORMULATION OF PUBLIC INVESTMENT PROGRAM AS A PROJECTS PLANNING FRAMEWORK

Current Practice in Azerbaijan: The Reality

- Total Public Sector investment is determined in a highly fragmented manner.
- There is not a comprehensive public investment policy formulation.
- The PIP is only a collection of some public investment projects selected on ad hoc basis.
- The present status of PIP deprives GOAZ of the opportunity to accelerate the social and economic development of the country.



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**THE PUBLIC INVESTMENT POLICY PROJECT
TRAINING WORKSHOP FOR TECHNICAL STAFF**

**SECTOR STRATEGIC
DEVELOPMENT PLANNING**
As a Framework for Project Development



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Introductory Questions

- **What is the place and role of SSDP in the planning process of Azerbaijan?**
- **Briefly describe (in bullet points) the current planning process in Azerbaijan.**
- **Please identify the strengths, if any, and weaknesses of the current planning practices in Azerbaijan.**
- **The two case projects noted at the beginning of this course should be used as references for discussing the above questions.**



SECTOR STRATEGIC DEVELOPMENT PLANNING

As a Framework for Project Development

Development Planning (existing procedures)

Macroeconomic Planning:

- Macroeconomic objectives and strategies are not explicitly considered, within a consistency framework, for SPPRS and SPSEDR;
- Sector inputs are just inserted in SPPRSD/SPSEDR w/o consistency checks

Sector Planning:



- LM prepares its SSDP on basis of project submissions; sent it for approval to the COM, which gets views of other agencies, and then approves.
- No direct links with macro planning and budgetary process

Project Planning:



- No concerns for macroeconomic constraints and impacts
- Lack of benefit-cost analysis and resource constraint considerations (except externally-funded projects)



SECTOR STRATEGIC DEVELOPMENT PLANNING

As a Framework for Project Development

Major Current Weaknesses

- No unified **Guidelines** exist for preparation of SSDPs
- SSDPs are **not based on or linked** to a national development framework
- SSDPs are not subject to **strategic constraints** or reconciliation through an integrated coordination process
- The SSDP – **budget relationship** is non-existent
- Limited, if any, **participation of stakeholders**
- Almost no **monitoring and evaluation**



SECTOR STRATEGIC DEVELOPMENT PLANNING

Coordinated Development Planning (proposed guidelines)

Macro Planning:

- National and sector development goals and strategies formulated
- Sector resource limitations established

Sector Planning:

- Sector strategic plans for 10 years developed per National goals
- Medium-term (4 yrs) sector programs aligned with MTEF
- Coordination, information-sharing and updating

Programs/ Project Planning:

- Investment proposals consistent with macro-planning and sector development priorities
- Investment programs have clearly defined goals and objectives
- Projects are appraised and prioritized by per the techniques of benefit-cost analysis and prioritized



SECTOR STRATEGIC DEVELOPMENT PLANNING

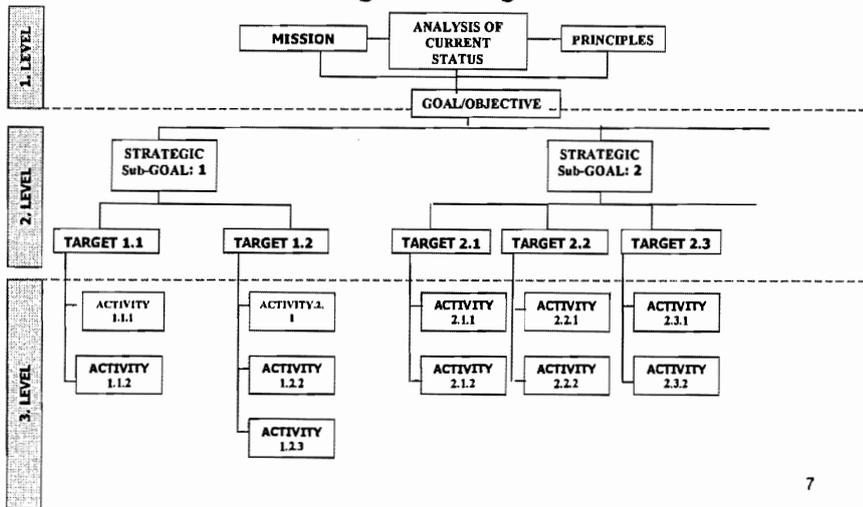
As a Framework for Project Development

Conditions for Successful Sector Development Planning

- SSDPs should formulate sector development objectives within the established National and Sectoral Development Framework.
- SSDPs need to be dynamic and adaptable to GOAZ's mid-term development priorities and resource availabilities.
- PIP should stem from SSDPs, with clear delineation of capital and recurrent expenditures
- Prioritize and sequence all projects
- Consult all stakeholders and counterparts
- Establish performance indicators and benchmarks for Monitoring and Evaluation



Sector Strategic Planning Structure



SECTOR STRATEGIC DEVELOPMENT PLANNING
As a Framework for Project Development

Sector Development Plans – Recommendations

- Implement a more synchronized and integrated approach between planning, programming and budgeting through a Joint Call Circular.
- Have sector “Goals – Targets – Activities – Projects” linked to each other within a result-oriented process that will gradually lead to performance program budgeting.
- The President/COM should provide, through HPPC, MOED and MOF, a definite guidance and coordination to reconcile top-down planning (MTEF, MTEFF, SPPRSD) discipline with bottom-up (projects) programming through SSDPs.
- Accelerate a program of Monitoring and Evaluation through a well-defined results measurement framework.



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**PUBLIC INVESTMENT POLICY PROJECT
TRAINING WORKSHOP FOR TECHNICAL
STAFF**

**INTEGRATED PROJECT ANALYSIS IN THE
PROJECT LIFE-CYCLE:**

**Linkages with SSDP, SPPRSD, SPSEDR,
Budget, and PIP**



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THE PROJECTS PLANNING PHASE

INTRODUCTORY QUESTIONS

- **What are the goals and functions of the projects planning at**
 - the sector level, and
 - the national (macro) level?
- **What should be the relationship among a sector's SDP and its submissions to the mid-term State Budget and PIP in terms of the sector's investment projects?**
- **Similarly, what should be the relationship between MTEF, SSDPs, SPPRSD, and SPSEDR, on the one side, and the MTEF and the mid-term Consolidated/State Budget, on the other, in terms of public investment projects?**
- **Please discuss the above w.r.t. our two case projects.**



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THE PROJECTS PLANNING PHASE

Project Goals and Functions

- The goals and functions of (e.g. rationale for) any investment project should be to meet the demand for its contribution to the success of the SSDP.
- This also implies that the proposed project also serves the objectives and strategies of the national and sectoral development framework.
- “Demand for a project” will, however, be meaningful and effective only if it is supported by necessary funding and not hampered by other constraints.

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THE PROJECTS PLANNING PHASE

Inter-Linkages between SSDP and Budget/PIP Through their Projects Content

- Social and economic developments envisaged by an SSDP could be realized only if the supporting investment projects are included in the PIP/Budget.
- Similarly, those projects included in the PIP/Budget w/o proper appraisal of them vis-à-vis their SSDPs are likely to lead to inefficient resource uses.
- So, isn't it obvious that the only sensible thing to do is to align each SSDP's next four years with its sector's submissions for the mid-term Budget and PIP?

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THE PROJECTS PLANNING PHASE

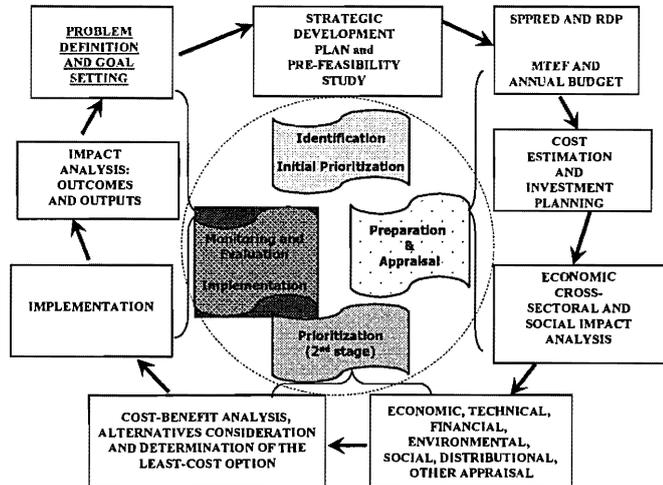
Inter-Linkages between SPPRSD/SPSEDR and SSDP/Budget/PIP

Through their Projects Content

- What is said in last two slides also applies to the relationship between SPPRSD/SPSEDR and SSDP/Budget/PIP because only in that case the poverty reduction and regional development objectives of GOAZ will be meaningful and realistic.
- In other words, all SPPRSD/SPSEDR activities should be supported by programs/projects which are also in the SSDPs/Budget/PIP, but no more and no less.
- Again, it is obvious that SSDPs should serve as the source of LMs' submissions for all other plan and budget documents, provided that SSDPs are drawn in line with guidance and instructions of the JCC.
- **Conclusion:** Planning, investment programming and capital budgeting form a circular process enveloping the project life-cycle as shown in the next slide.



PUBLIC INVESTMENT PROJECT LIFECYCLE





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TRAINING WORKSHOP FOR TECHNICAL STAFF**

Preparation and Approval of PIP



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THE PREPARATION AND APPROVAL OF PIP

INTRODUCTORY QUESTIONS

- What should be the characteristic features of an effective and sound PIP in light of the previous slides and w.r.t.:
 - Its coverage of the public sector agencies;
 - Its coverage of the type of (capital) expenditures; and
 - The State Budget and the budgets of other public agencies.
- Should the PIP be a policy planning or capital budgeting instrument, or both?



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THE PREPARATION AND APPROVAL OF PIP

Characteristic Features of the PIP

- PIP should be universal-all inclusive in terms of coverage of:
 - Public sector agencies, and
 - All capital spending, whether in the form of a project or not.
- The PIP is not a “capital budget” and cannot serve as a source of spending authorization. It is instead a policy planning document, evaluating and guiding GOAZ's use of public capital in most productive economic and social projects
- The PIP includes only those project and capital spending proposals that are found, on policy and cost-benefit criteria, to be in line with the national and sectoral development objectives and strategies.
- Once included in the PIP, the project and capital spending proposals can also be included in their sponsoring agencies' budget proposals according to their own budget classification and presentation bases.

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THE PREPARATION AND APPROVAL OF PIP

The PIP as an Investment Policy Document: The Essential Questions

- Could anyone think of any good reason why GOAZ shouldn't have an investment policy?
- Would everyone agree that there is need for it, and it should be MOED's responsibility as its Charter says?
- What should be the focus of an analysis of GOAZ's Public Investment Policy?

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THE PREPARATION AND APPROVAL OF PIP

The Focus of PIP as Investment Policy Document

- Analyze the recent and planned public investment policies and performances w.r.t.:
 - Sustained social and economic development with stabilization;
 - Changing the structure of asset ownership (i.e., privatization);
 - Desired transformation of production structure (e.g. non-oil growth);
 - Facilitating and guiding private sector investments.
- Analyze them to also see if they included the necessary mechanisms to help ensure:
 - Sound prioritization of investment programs and projects; and
 - Technical efficiency and sustainability of capital expenditures.

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**Public Investment
Policy Project**

THE PREPARATION AND APPROVAL OF PIP

Importance of the Joint/PIP Call Circular

- As a tool for effective integration of all plan and budget documents through:
 - Basing all instructions and requirements on the same MTEF & MTFF and sectoral priorities;
 - Issuing appropriately established sector spending ceilings;
 - Ensuring consistency among information requirements for SPPRSD, PIP, and Budget by putting them in one document, and similarly with LMs/Agencies' responses.
- The JCC will also help LMs and MOED to update their SSDPs and SPPRSD/SPSEDR, respectively.
- And, it is obvious that the sensible thing to do for each LM is to align its SSDP's next four years with its submissions for the mid-term Budget and PIP?

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THE PREPARATION AND APPROVAL OF PIP

Composition of the Joint Call Circular (JCC)

- Overview of the national and sectoral development objectives, strategies, priorities, and expected outcomes (based on MTEF);
- Guidance, sectoral ceilings, instructions, and information requests for the preparation of the next SPPRSD or its Annual Performance Review (or the Joint/SPPRSD CC);
- The Joint/PIP CC; and
- The Joint/Budget CC.

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THE PREPARATION AND APPROVAL OF PIP

Composition of the Joint/PIP CC

- Sector related information that will help MOED with formulation of the PIPP for the next four years;
- Information on each project that LMs propose for the next rolling PIP;
- Other capital spending proposals, which are not in the form of "public investment project".

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THE PREPARATION AND APPROVAL OF PIP

How Difficult for a LM to respond to the Joint/PIP CC?

- Not at all, particularly if there is a well-prepared SSDP with a well documented projects pipeline.
- Also, the “rolling” nature of the Budget and PIP and presence of many “on-going projects” make it easier.
- MOED’s PIP experts stand ready to help LMs with necessary technical support.

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THE PREPARATION AND APPROVAL OF PIP

Review and Negotiation of PIP

- MOED’s work on PIP is led and coordinated by the PIP Task Force comprising a Deputy Minister (economy) and all department and division heads with responsibility for PIP work.
- Each LM’s PIP submission will be reviewed and assessed by the relevant sector division of MOED;
- In this work, each sector division of MOED will also obtain views of all other relevant MOED divisions;
- Based on these, the MOED sector division chief will sound out LM’s responses to MOED’s initial assessments; and
- Each MOED sector division will submit to the PIP Task Force its evaluation, based on the above, of the relevant LM submission.

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THE PREPARATION AND APPROVAL OF PIP

Review and Negotiation of PIP (cont.)

- The Macroeconomic Policy Division of MOED will aggregate LMs' submissions and present to the PIP Task Force its assessment wrt MTEF/MTFF and inter-sector consistency;
- The PIP Task Force will then review each LM's PIP submission in light of the assessments of the MOED sector and Macroeconomic Policy Divisions and establish MOED's position;
- MOED Director in charge of PIP work will negotiate with LM;
- Any remaining differences will be taken up by the two Ministers;
- In the meantime, the Macroeconomic Policy Division will be drafting the policy section of the PIP in the light of MTEF, MTFF, and the above reviews of LMs' submissions by MOED divisions.

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THE PREPARATION AND APPROVAL OF PIP

Approval of the PIP

- MOED will send the final draft PIP to MOF for its concurrence;
- Since MOF was involved in the preparation of Joint/PIP CC and negotiations with LMs, agreement will be reached easily;
- MOED will then submit the draft PIP to HPPC for review and clearance before submission to COM for approval.
- HPPC will also act as the final referee for any remaining differences between any LM and MOED.
- Once approved by COM, the PIP will be circulated to all agencies for incorporation in their capital budgets.

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PUBLIC INVESTMENT PROJECTS EVALUATION FORM

2.1 Project background information

Sector	EDUCATION SECTOR			
Agency	MINISTRY OF EDUCATION			
Name	EDUCATION SECTOR DEVELOPMENT PROJECT			
Number				
Location	AZERBAIJAN REPUBLIC			
Inception/Completion date	<u>Start:</u>	1/9/2003	<u>End:</u>	31/03/2008
Goods/services	To increase learning achievements for all students to meet the needs of a market economy and improve the efficiency of general education.			
Capacity	21 MLN USD			
Project staff responsible for following:	<u>Name:</u>	<u>Position:</u>	<u>Telephone</u>	<u>Email:</u> <u>Date:</u>
-Preparation	WORLD BANK			
-Approval	AZERBAIJAN GOVERNMENT			
-Contact person	Mr.ISKENDER ISKENDEROV	DEPUTY MINISTER	Tel: 994-12-493 7-083	Fax: 994-12-4987-569
Priority level of the project	<u>1. Urgent</u>	<u>2. Necessary X</u>	<u>3. Required</u>	<u>Priority justification:</u>

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.2 Funding projection for 2007-2010 by sources (capital expenditure/investment demand)

(AZN)

Funding source	Total project cost	Actual Payment amount by end 2005	2006 approved/ identified amount	2007 estimate	2008 estimate	2009 estimate	2010 estimate
State budget	2.8	1.2	1.2	0.4			
Own funds							
Foreign loan	18.0	5.8	6.4	5.9			
Other* SOROS FUND	0.18	0.1	0.1				
Total	21.0	7.1	7.7	6.3			
Exchange rate of AZN/USD							

* If any, other funding sources of the project (e.g. internal bank loan, grant) should be indicated in detail.

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.3 Foreign funding projection of the project for 2007-2010

(USD)

Country/Institution Providing External Funding*	INTERNATIONAL DEVELOPMENT ASSOCIATION						
Date of Effectiveness	01/09/03						
Type (Grant, Loan, Equity)	CREDIT						
Total Amount	18 MLN USD						
Repayment/Grace Period	10 YEARS - GRACE PERIOD, 35 İL - PAYMENT PERIOD						
Interest Rate	0.75% - ON DISBURSED AMOUNT, 0.5% - ON OUTSTANDING BALANCE						
Annual amount payable per funding agreement	<u>Cumulative</u>	As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding							
Annual utilization	<u>Cumulative</u>	<u>Used as of 2005</u>	<u>2006-expected</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding	2.8	1.2	1.2	0.4			
	18.0	5.8	6.4	5.9			
Average annual exchange rate of other foreign currency received in relation with US dollar**		As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>

* If there is more than one external funding please fill in additional parts of this form.

** Please fill for funds received in foreign currency other than US dollar (euro, japanese yen)

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.3 Foreign funding projection of the project for 2007-2010

(USD)

Country/Institution Providing External Funding*	SOROS FOUNDATION						
Date of Effectiveness	01/09/03						
Type (Grant, Loan, Equity)	GRANT						
Total Amount	0.18 mln USD						
Repayment/Grace Period	N/A						
Interest Rate	N/A						
Annual amount payable per funding agreement	<u>Cumulative</u>	As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding							
Annual utilization	<u>Cumulative</u>	<u>Used as of 2005</u>	<u>2006-expected</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total GoAz's share Foreign funding	2.8 0.2	1.2 0.1	1.2 0.1	0.4			
Average annual exchange rate of other foreign currency received in relation with US dollar**		As of <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>

* If there is more than one external funding please fill in additional parts of this form.

** Please fill for funds received in foreign currency other than US dollar (euro, japanese yen)

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.4 Pending/recurring project implementation report

(Current/Project price)

YEAR*	Planned resources			PIP approved resources			Revised PIP appropriation			Actual paid amount under PIP			Actual project costs			Realization %**
	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	
2000																
2001																
2002																
2003																
2004	0.4	1.4	1.8	0		0	0		0							
2005	0.8	4.5	5.3	0		0	0		0							
2006 (expected)	1.2	6.5	7.7	0.8		0.8	0.8		0.8							
2007 (expected)	0.4	5.9	6.3													
TOTAL	2.8	18.2	21	0.8		0.8	0.8	0	0.8							

*Please add rows if necessary

** Realization (%) = (Actual project expenditure/Planned project resources) X 100

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.5 Project justification and analysis summary

<p>Strategic Context of Project*</p>	<p>-Linkages/relations to SSDP, SPPRSD and SPSEDR;</p> <p>This project is designed with a view to supporting the State Program on Poverty Reduction and Economic Development (SPPRED), which also emphasizes the improvement of the quality and relevance of general education. The Program's focus on general education fits well into the SPPRED and the overall poverty reduction strategy under the new CAS since investments in general education are critical in the production of quality secondary education graduates and poverty alleviation. International evidence also suggests that social rates of return to general education are generally high. Without quality general education, the education system will have difficulties producing graduates who will become flexible workers in the emerging market economy. Primary and secondary education is also the foundation of quality vocational and tertiary education, which will help the country produce the skills and knowledge required by the emerging economy.</p> <p>-Contribution to Production in non-oil sectors;</p> <p>Long term benefits of the Project for the non-oil sector are derived from the projected improvement in quality and relevance of student learning as a result of better management and effective leadership, and implementation of quality programs in general education. All these should also lead to improved student achievement, and improved effectiveness and efficiency of the delivery of education services. It is also expected that the poor will have better chances to continue to tertiary education and have better labor market outcomes as a result of improved quality and relevancy in general education, contributing to the country's poverty reduction efforts through the development of human capital.</p> <p>-Contribution to Employment in non-oil sectors;</p> <p>This project would support the Government's efforts to strengthen the curriculum development capacity in the Institute for Education Problems (IEP), design and adopt the National Curriculum Framework and prepare and implement new national standards and syllabi for grades 1-11 to improve the quality and relevance of general education to meet the needs of the emerging market economy and the social and political environment.</p> <p>-Contribution to new technology;</p> <p>As far as the improvement of quality and relevance of education is concerned, the project suggested: (a) curriculum reform and teacher training to improve and realign the existing curricula based on the needs of the emerging economy and the political and social environment; (b) improving the quality of the teaching staff through an increase in the basic wages while reducing the total number of teachers; and (c) improving the physical conditions of schools through rehabilitation, refurbishment and provision of new technologies.</p> <p>-Environmental impact and related investment;</p> <p>Asbestos material (primarily roofing sheets) are found in almost all existing buildings and pose serious hazards to the building occupants and to the environment. The MOE, the Rayon Authorities, and the SCAC would ensure that such asbestos materials are removed and disposed of safely, and under the appropriate oversight of Azerbaijan's environmental authorities. MOE would likewise ensure that no new asbestos materials are used in the rehabilitation/construction of schools.</p> <p>-Economic Life of the Project.</p>												
<p>Project's Current Status *</p>	<p>IMPLEMENTING</p>												
<p>Current and Anticipated Issues, Problems and Proposed Measures*</p>													
<p>Major project analysis indicators**</p>	<table border="0"> <tr> <td></td> <td style="text-align: center;">Financial</td> <td style="text-align: center;">Economic</td> </tr> <tr> <td>-Net Present Value (NPV)</td> <td></td> <td></td> </tr> <tr> <td>-Internal Rate of Return (IRR)</td> <td></td> <td></td> </tr> <tr> <td>-Cost effectiveness analysis (particularly, for social sector projects)</td> <td></td> <td style="text-align: center;">Very small impact on the state budget. Project economic and financial cost is well-taken</td> </tr> </table>		Financial	Economic	-Net Present Value (NPV)			-Internal Rate of Return (IRR)			-Cost effectiveness analysis (particularly, for social sector projects)		Very small impact on the state budget. Project economic and financial cost is well-taken
	Financial	Economic											
-Net Present Value (NPV)													
-Internal Rate of Return (IRR)													
-Cost effectiveness analysis (particularly, for social sector projects)		Very small impact on the state budget. Project economic and financial cost is well-taken											

* Please expand the row as much as needed

**Submit the supporting documentation

Asbestos material (primarily roofing sheets) are found in almost all existing buildings and pose serious hazards to

PUBLIC INVESTMENT PROJECTS EVALUATION FORM

2.1 Project background information

Sector	ENERGY SECTOR				
Agency	MINISTRY OF INDUSTRY AND ENERGY				
Name	POWER TRANSMISSION PROJECT				
Number					
Location	AZERBAIJAN REPUBLIC				
Inception/Completion date	<u>Start:</u>	Aug-05	<u>End:</u>	Jun-10	
Goods/services	POWER ENERGY				
Capacity	55.4 MLN USD				
Project staff responsible for following:	<u>Name:</u>	<u>Position:</u>	<u>Telephone</u>	<u>Email:</u>	<u>Date:</u>
-Preparation	WORLD BANK				
-Approval	AZERBAIJAN GOVERNMENT				
-Contact person	Mr. Teyyar Ibrahimov	Project Director	(+994 12) 498 41 84	teyyar@azenergy.com	5/17/2005
Priority level of the project	<u>Priority justification:</u>				
	<u>1. Urgent</u> X	<u>2. Necessary</u>	<u>3. Required</u>		

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.2 Funding projection for 2007-2010 by sources (capital expenditure/investment demand)

(AZN)

Funding source	Total project cost	Actual Payment amount by end 2005	2006 approved/ identified amount	2007 estimate	2008 estimate	2009 estimate	2010 estimate
State budget	7.4	0.0	1.4	3.0	2.2	0.7	0.1
Own funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign loan	48.0	0.0	9.1	19.4	14.5	4.5	0.5
Other*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	55.4	0.0	10.5	22.4	16.7	5.2	0.5
Exchange rate of AZN/USD							

* If any, other funding sources of the project (e.g. internal bank loan, grant) should be indicated in detail.

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.3 Foreign funding projection of the project for 2007-2010

(USD)

Country/Institution Providing External Funding*	INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT							
Date of Effectiveness	17 avqust 2005							
Type (Grant, Loan, Equity)	CREDIT							
Total Amount	48 MLN USD							
Repayment/Grace Period	8 YEARS - GRACE PERIOD, 20 YEARS - REPAYMENT PERIOD							
Interest Rate	LIBOR +1% - ON DISBURSED AMOUNT, 0.5% - ON OUTSTANDING BALANCE							
Annual amount payable per funding agreement	<u>Cumulative</u>	<u>As of 2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
Total	55.4	0.0	10.6	22.4	16.3	5.5	0.6	
GoAz's share	7.4	0.0	1.4	3.0	2.2	0.7	0.1	
Foreign funding	48.0	0.0	9.1	19.4	14.5	4.5	0.5	
Annual utilization	<u>Cumulative</u>	<u>Used as of 2005</u>	<u>2006-expected</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
Total								
GoAz's share								
Foreign funding								
Average annual exchange rate of other foreign currency received in relation with US dollar**		<u>As of 2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	

* If there is more than one external funding please fill in additional parts of this form.

** Please fill for funds received in foreign currency other than US dollar (euro, japanese yen)

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.4 Pending/recurring project implementation report

(Current/Project price)

YEAR*	Planned resources			PIP approved resources			Revised PIP appropriation			Actual paid amount under PIP			Actual project costs			Realization %**
	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	Internal	External	Total	
2003																
2004																
2005																
2006	1.4	9.1	10.5													
2007	3.0	19.4	22.4													
2008	2.2	14.5	16.7													
2009	0.7	4.5	5.2													
2010	0.1	0.5	0.6													
TOTAL	7.39	48.0	55.4													

*Please add rows if necessary

** Realization (%) = (Actual project expenditure/Planned project resources) X 100

PUBLIC INVESTMENT PROJECT EVALUATION FORM

2.5 Project justification and analysis summary

<p>Strategic Context of Project*</p>	<p>-Linkages/relations to SSSD, SPPRSD and SPSEDR; The proposed project to rehabilitate the power transmission system would contribute to the PRSP in a number of ways, most notably by: Improving the conditions for economic growth through more reliable electricity supply; Reducing the cost of electricity through improved technical and financial management of the transmission system; and Improving the basis for private participation in energy infrastructure development by upgrading the power transmission system to enable dispatch and transmission of electricity consistent with contractual arrangement</p> <p>-Contribution to Production in non-oil sectors; The primary objective of the project is to improve the efficiency of the power transmission operation in Azerbaijan through technical and institutional strengthening of the generation/transmission utility. The project will contribute to the non-oil sector development.</p> <p>-Contribution to Employment in non-oil sectors; Electricity supply is one of the essential conditions for non-oil sector development and opening the new jobs.</p> <p>-Contribution to new technology; SCADA/EMS1 system: installation of hardware and software to enable real time acquisition of operational information from generating stations and HV transmission system substations, analysis and monitoring of the network status at the National Dispatch Center, and control and dispatch of the generating plants and the HV transmission system. Telecommunications network upgrade: installation of communications equipment to meet the requirements of dispatch, metering, and Hv network operations and maintenance. It will also provide broadband communications facilities between major Azerenerji offices and generating plants to support improvements in Azerenerji financial management and administration.</p> <p>-Environmental impact and related investment; The project is conservatively expected to lead to a 1.5 percent reduction in gas and fuel oil use at power plants because of more economic dispatch, with a corresponding effect on emission of greenhouse gases. An estimated 0.5 percentage point's reduction in transmission losses (from 5 percent to 4.5 percent) has a corresponding positive impact on emissions from the power plants. The project has been given an environmental category rating of B since proposed investments under the project will be confined to existing facilities and rights of way and as such are unlikely to trigger major environmental impacts or other safeguard policies.</p> <p>-Economic Life of the Project. Starting from 2010 will continue for many years</p>												
<p>Project's Current Status *</p>	<p>IMPLEMENTATION HAS NOT STARTED YET</p>												
<p>Current and Anticipated Issues, Problems and Proposed Measures*</p>	<p>1) Inadequate tariffs for sector enterprises due to failure to establish suitable institutions and rules for independent regulation. 2) Loss of Government commitment to the principles of cost-recovery tariffs. 3) Failure to establish adequate social protection systems on a timely basis. 4) Distribution companies' payment to Azerenerji for power supply falls short of their contractual obligations.</p>												
<p>Major project analysis indicators**</p>	<table border="1"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Financial</u></th> <th style="text-align: center;"><u>Economic</u></th> </tr> </thead> <tbody> <tr> <td>-Net Present Value (NPV)</td> <td style="text-align: center;">145.1</td> <td style="text-align: center;">41.7</td> </tr> <tr> <td>-Internal Rate of Return (IRR)</td> <td style="text-align: center;">21%</td> <td style="text-align: center;">39%</td> </tr> <tr> <td colspan="3">-Cost effectiveness analysis (particularly, for social sector projects)</td> </tr> </tbody> </table>		<u>Financial</u>	<u>Economic</u>	-Net Present Value (NPV)	145.1	41.7	-Internal Rate of Return (IRR)	21%	39%	-Cost effectiveness analysis (particularly, for social sector projects)		
	<u>Financial</u>	<u>Economic</u>											
-Net Present Value (NPV)	145.1	41.7											
-Internal Rate of Return (IRR)	21%	39%											
-Cost effectiveness analysis (particularly, for social sector projects)													

* Please expand the row as much as needed

**Submit the supporting documentation

Asbestos material (primarily roofing sheets) are found in almost all existing buildings and pose serious hazards



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**Public Investment
Policy Project**

**PUBLIC INVESTMENT POLICY PROJECT
TRAINING WORKSHOP FOR TECHNICAL STAFF
Determining the Projects Content of PIP**



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**Public Investment
Policy Project**

DETERMINING THE PROJECTS CONTENT OF PIP

INTRODUCTORY QUESTIONS TO LMS/AGENCIES

- How do you prepare your PIP submissions?
- Did you have difficulty in responding to the Joint/PIP CC for 2007-10?
- Do you have a SSDP?
- Do you have a projects pipeline supporting SSDP and multi-year PIP and State Budget?
- What are the "preparedness profile" of your projects?
- Do you have a separate "project development cycle" independent of the PIP process?



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DETERMINING THE PROJECTS CONTENT OF PIP

Processing a Project into the PIP

- Identification of the project
- Preparing the Project Concept Paper
- Preparing the Pre-Feasibility Report
- The full Feasibility Report preparation
- Project Appraisal Report
- Inclusion into the PIP
- Loan/Credit Agreements
- Finalizing the Implementation Plan

3



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DETERMINING THE PROJECTS CONTENT OF PIP

Project Identification

- This is what makes bottom-up planning meaningful.
- Participatory process is important. Does it work here?
- Who could and should identify projects?
- Who have identified our two case projects?
- How will it be decided if it is a good project idea, and what is the next?

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**Public Investment
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DETERMINING THE PROJECTS CONTENT OF PIP

The Project Concept Paper (PCP)

- Draft a "Project Idea" proposal (maximum one page) for each of our two sample projects (Azerenergy and education).
- Who, and how, will decide whether this proposal is to be taken one step up into the PCP stage?
- Prepare and discuss the PCP for each of our two case projects, based on the template provided in the draft PIPP Manual (Annex 10).

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**Public Investment
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DETERMINING THE PROJECTS CONTENT OF PIP

Processing of PCP

- The PCP will be prepared by the LM/Agency's dept/division in charge of project development work;
- It will be reviewed & approved by the LM/Agency management on the basis of its SSDP, SPPRS, SPSEDR, and the most recent Joint/PIP CC, and will be sent to MOED for next stage.
- The MOED PIP Division will obtain views of all relevant divisions on the proposed project and give its recommendations to the MOED Investment Review Committee (IRC).
- A project whose PCP is approved by IRC qualifies for inclusion in the outer years of the PIP.

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DETERMINING THE PROJECTS CONTENT OF PIP

The Pre-Feasibility Report (PFR)

- Who will decide, and how, if the PCP is to be taken up to the Pre-Feasibility stage?
- Who should, and how, prepare and approve the PFR, LM/Agency or MOED?
- Draft and discuss a PFR for each of our two case projects. Use for this purpose the PFR template provided in Annex 11 of the draft PIPP Manual.

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**Public Investment
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DETERMINING THE PROJECTS CONTENT OF PIP

Processing of PFR

- No projects w/o a PFR will be included in the next FY's PIP. Discuss the reasons.
- Once a PCP is approved by IRC, MOED/EPFD will form a PFR Team under himself or one of his division chiefs and including members from MOF and the LM/agency.
- PFR will analyze and verify the project's potential contributions to national and sectoral development objectives and strategies with the help of sector and technical experts using both official and market data.
- If the MOED/IRC approves PFR, it can be included in the LM's submission for the next FY PIP.

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DETERMINING THE PROJECTS CONTENT OF PIP

The Full Project Feasibility Report (FPFR)

- If a project is below a certain size (depending on its sector), MOED/IRC may exempt it from the FPFR requirement and can move it to the Appraisal stage.
- Preparation of a FPFR requires substantial work and expertise beyond the capacity of a LM/Agency, hence contracting it out.
- Preparation of a FPFR may take several months, even years, depending on the size and nature of the project.
- This last point, particularly, makes a PAR indispensable.

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DETERMINING THE PROJECTS CONTENT OF PIP

The Project Appraisal Report (PAR)

- Every project to be included in the next FY's PIP should be duly supported with a PAR prepared by MOED.
- PAR will:
 - confirm the evaluations of PFR or FPFR;
 - Assess the project's suitability to medium- to long-term development objectives and strategies;
 - Identify the critical risks to the project and its management options;
 - Serve as a guide for project implementation and monitoring.

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DETERMINING THE PROJECTS CONTENT OF PIP

Selection of Projects for the PIP

- We have so far talked about the process and procedures for evaluating LMs' PIP submissions and for developing the project proposals into the PIP.
- We have referred only to the "national and sectoral development objectives and strategies" as the main criteria for the evaluation of sector PIPs and projects.
- This main set of criteria should now be specified in more definite and operational terms, which are called "prioritization and selection of investment programs and projects".

AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT
Project Concept Paper
Education Sector Development Project

1. **Cover Page / Introduction:**

a) Name and address of LM/agency;

Ministry of Education

Address: 49 Khatai Avenue, Baku AZ 1008

Azerbaijan

b) Type of agency (e.g., LM, State Committee, SOE) and sector;

Ministry of Education

Education sector

c) Other organizations which may be involved in the project and/or its funding;

World Bank Group

Soros Foundation

d) Contact person, his position, phone number, and e-mail address; and

Mr. Iskender Iskenderov, Deputy Minister

Tel: 994-1 2-93 7-083 Fax: 994-12-987-569

e) Signature of the authorized official.

2. **Technical Information:**

a) Concise title and objective of proposed project;

Education Sector Development Project

The Program seeks to increase learning achievements for all students to meet the needs of a market economy and improve the efficiency of general education. The development objective of Phase 1 is to strengthen the capacity to plan, manage and monitor the reform program more effectively and efficiently and initiate the highest priority investments in selected districts.
(page 3 of PAD)

b) Discussion of the:

- Objectives;

- **Quality improvement (through curriculum reform, teacher development, provision of textbooks and reading materials);**
- **efficiency and financing (through financing and budgeting reforms, rationalization and school improvement);**
- **equity and access to general education (through school grants in selected less advantaged districts); and**

- **management strengthening (through student assessment, management information systems, management, planning and monitoring capacity).** *(page 3 of PAD)*

- **Methods of approach;**

Financing of high-priority investments in strengthening the capacity to plan, manage and monitor the education reform program more effectively represented the best approach in sector development. *(Page 3 of PAD)*

- **Amount of effort (labor) to be employed;**

The MOE has committed to the establishment of the Project Coordination Unit (PCU), which will be responsible for coordination and implementation of the Government's education reform, including the implementation of the ERP. The PCU will also have the basic capacity to provide support in procurement, financial management, and project monitoring and evaluation. The PCU will be under the direct responsibility of the Deputy Minister for Program Coordinator. The PCU will be comprised of the following staff: (i) a Director; (ii) a Deputy Director; (iii) a procurement officer; (iv) procurement assistant/construction engineer; (v) a financial management specialist; (v) a financial assistant; (vi) translators/interpreters (2); and (vii) a monitoring and evaluation specialist. *(page 31 of PAD)*

- **Anticipated results and beneficiaries;**

- **Improved quality and relevance of general education**
- **Improved efficiency in resource allocation and use in general education**
- **Improved access to quality general education**
- **Strengthened management, planning and monitoring capacity**

The entire Azeri population will benefit from the proposed Program because of improved quality and relevance of general education through curriculum reform, teacher development and provision of reading materials and strengthened planning, management and monitoring capacity in the sector. More specifically, the target beneficiary population of the Program includes all children in primary and general secondary education, students and teaching staff in the existing teacher training institutes, and all those working in the education sector. *(page 30 of PAD)*

- **How the work will contribute to sustainable development in the sector;**

The Program will assist the Government in realigning curriculum objectives of general education through curriculum reform. In addition, the Program will assist the Government to prevent further deterioration of the quality of general education through a set of specific interventions such as: (i) teacher development through improvement in the delivery of in-service and pre-service teacher education; (ii) provision of reading materials for school libraries; (iii) provision of selective teaching and learning materials and equipment and school improvement in selected districts; and (iv) creating a school-based innovative grants program for demand-driven local school projects to upgrade schooling quality in selected districts. *(page 19 of PAD)*

c) **Type of support needed (other than funding).**

N/A

3. Supporting Information:

a) Proposed estimated cost;
Planned total cost 20.99 mln USD

b) Brief cost breakdown;
Proposed IDA Loan amount – 18 mln USD
Government share – 2.8 mln USD
Soros grant – 0.18 mln USD

	Loan Amount	Government Share	Total Cost
Works	5,060,000	690,000	5,750,000
Goods	5,160,000	340,000	5,500,000
Consultant Service	3,560,000	520,000	4,080,000
Training	2,030,000	130,000	2,160,000
School Grant Program	600,000	150,000	750,000
Incremental operating cost	160,000	290,000	450,000
Unallocated	1,430,000	860,000	2,290,000
Total	18,000,000	2,980,000	20,980,000

(Page 88 and 117 of PAD)

c) Any proposed cost sharing;
IDA Loan amount – 18 mln USD
Government share – 2.8 mln USD
Soros grant – 0.18 mln USD

d) Proposed duration of project;
4 years 2003-2006
(Page 2 of PAD)

e) Brief description of the LM/agency's previous experience with the same and/or similar types of proposed project.

MOE needs to strengthen the capacity in implementation of the project. The capacity of the MOE and its associated units will be built slowly but consistently over time throughout the project implementation period. The management and planning capacity of the MOE and local levels will be strengthened through technical assistance and training programs supported under the proposed Program. In this way, the country's education system will have the necessary foundation to implement the contemplated reforms in the other parts of the system. *(Page 35-36 of PAD)*

AZERBAIJAN REPUBLIC
MINISTRY OF ECONOMIC DEVELOPMENT

Project Concept Paper
Power Transmission Project

1. Cover Page / Introduction:

a) Name and address of LM/agency;
Azerenerji (Open Type Joint Stock Company)
10, Academician Abdulkerim Alizade street
Baku AZ1005
Azerbaijan

b) Type of agency (e.g., LM, State Committee, SOE) and sector;
Azerenerji (Open Type Joint Stock Company)
Energy sector

c) Other organizations which may be involved in the project and/or its funding;
World Bank Group

d) Contact person, his position, phone number, and e-mail address; and
Mr.Teyyar Ibrahimov
Tel: 994 12 98 41 84
Fax: 994 12 95 55 23
e-mail: teyyar@azerenerji.com

e) Signature of the authorized official.

2. Technical Information:

a) Concise title and objective of proposed project;
Power Transmission Project

The primary objective of the project is to improve the efficiency of the power transmission operation in Azerbaijan through technical and institutional strengthening of the generation/transmission utility. The project has as a secondary objective to contribute to strengthening Azerenergy's financial position. (page 3 of PAD)

b) Discussion of the:
• Objectives;

The proposed project to rehabilitate the power transmission system would contribute to the poverty reduction in a number of ways, most notably by:

- **Improving the conditions for economic growth through more reliable electricity supply;**
- **Reducing the cost of electricity through improved technical and financial management of the transmission system; and**

- Improving the basis for private participation in energy infrastructure development by upgrading the power transmission system to enable dispatch and transmission of electricity consistent with contractual arrangements. *(page 3 of PAD)*

- Methods of approach;

Financing of high-priority investments in dispatch and transmission network rehabilitation represented the best approach at this stage in sector development. Transmission is a backbone of the power system, and the current lack of an adequate dispatch system is both a risk to security of supply and a cause of inefficient operations. *(Page 3 of PAD)*

- Amount of effort (labor) to be employed;

Azerenerji has established a Project Implementation Unit for the proposed project, reporting to the Chief Engineer (First Deputy President) and staffed by specialists in technical, financial, environmental, and procurement matters, to act as the Bank's counterpart on day-to-day matters. The PIU is responsible for project preparation, implementation, including procurement, contract supervision and management, and project financial management, including project accounting, financial reporting, loan disbursements, and arrangements for external audit. *(page 7 of PAD)*

- Anticipated results and beneficiaries;

- Improved efficiency of fuel use per kWh of electricity generated through Economic Dispatch and reduced transmission losses.
- Improved reliability and quality of electricity supply with respect to frequency and duration of forced outages.
- Strengthened financial position (i.e. need for Govt. financial support reduced/ eliminated) as a consequence of (a) tariffs that increase over time to cover full costs, and (b) increased payment collections. *(page 4 of PAD)*

- How the work will contribute to sustainable development in the sector;

Over the longer term, the sustainability of the project will depend on:

- increasing Azerenergy's tariffs to cost-recovery level;
- the financial performance of electricity distribution companies and their orderly payments to Azerenergy for supply of electricity; and
- capacity building for the Azerenergy dispatchers; continuous SCADA computer system support; maintenance personnel and resources for the transmission system. *(page 9 of PAD)*

c) Type of support needed (other than funding).

N/A

3. Supporting Information:

a) Proposed estimated cost;

Planned total cost 55.4 mln USD

b) Brief cost breakdown;

**Proposed IBRD Loan amount – 48 mln USD
Government share – 7.4 mln USD**

	Loan Amount	Government Share	Total Cost
Works	160,000	40,000	200,000
Goods	44,510,000	6,443,333	50,953,333
Consultant Service	2,470,000	823,333	3,293,333
Training	100,000	-	100,000
Incremental operating cost	280,000	93,333	373,333
Front end fee	240,000	-	240,000
Unallocated	240,000	-	240,000
Total	48,000,000	7,400,000	55,400,000

(Page 53 of PAD)

c) Any proposed cost sharing;
**IBRD Loan amount – 48 mln USD
Government share – 7.4 mln USD**

d) Proposed duration of project;
5 years 2006-2010
(Page 8 of PAD)

e) Brief description of the LM/agency's previous experience with the same and/or similar types of proposed project.

Azerenerji has been the beneficiary and implementing agency in two major hydro rehabilitation projects financed by EBRD, a substation rehabilitation project financed by KfW, and reconstruction of a combined-cycle thermal power plant financed by JBIC. The capacity of Azerenerji and the PIU to undertake their project implementation responsibilities is considered to be satisfactory, given their experience with previous projects and the technical skills of their staff. *(Page 8 of PAD)*



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PUBLIC INVESTMENT POLICY PROJECT

TRAINING WORKSHOP FOR TECHNICAL STAFF

Prioritization of Investment Programs and Projects



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PRIORITIZATION OF PROGRAMS AND PROJECTS

Quantitative Prioritization:

Introductory Questions

- Why analyze public investments quantitatively if they are already filtered on policy basis?
- If the financial analysis of projects is not suitable to most public investment projects, what shall we do?
 - How shall we address the valuation (pricing) issue?
 - How to treat indirect costs and benefits (externalities)?
 - How to quantitatively analyze the projects whose benefits cannot be measured?



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Quantitative Prioritization:

Why needed?

- Policy-filtering determines whether a public investment is suitable for the PIP if “profitable”;
- But profitability or efficiency of a project can be determined only by quantitative analysis.
- Quantitative prioritization can be applied to policy filtered projects either independently of or jointly with policy-based ranking and weighting.

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PRIORITIZATION OF PROGRAMS AND PROJECTS

Financial Analysis of Projects:

Its Usage for Public Investment

- We said it's the main project selection tool in the private sector;
- What use could be made of it in evaluating public investments?
 - It could be useful in evaluating SOEs' projects (why?), even though project selection is to be made on economic analysis;
 - Financial analysis will provide a useful starting ground for the economic analysis that uses different definition of C & B and adjusted market prices; and
 - The financial analysis of public investment projects will help judge whether and how they can be sustainable.

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Financial Analysis of Projects: Relevant Project Characteristics

- Commercially operated projects, whether with public or private ownership, which expect to generate sufficient revenues to cover:
 - All necessary capital costs, and
 - All operating costs:
 - Production costs;
 - Amortization of intangible investment expenditures and depreciation of fixed assets;
 - Debt service; and
 - Generation of a profit for compensating investors and reserve accumulation (what about "break-even" projects?).

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Financial Analysis of Projects: Relevant Project Characteristics (cont.)

- Non-commercially operated projects, which do not produce sufficient revenues, rely on external support:
 - To cover either capital or operating costs or both;
 - By either the government or international aid or both; and
 - The need for external support indicates that the project's worth lies in benefits it creates for the society rather than financial benefits.

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Financial Analysis of Projects: Relevant Project Characteristics (cont.)

- For a new commercially operated project, FIRR or NPV criterion provides the basis for the decision;
- But for a commercial expansion project, two steps are needed:
 - First, appraise the worth of the additional investment and related benefits and costs; and
 - Second, the worth of the total enterprise including the additional project should be analyzed and assessed.

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Financial Analysis of Projects: Some Analytical Concepts

- Budget:
 - Investment (capital) budget: the cost of all facilities that must be in place before the project begins its activities;
 - operating budget covers all costs incurred for the activities to be carried out; and
 - a cash flow budget shows different sources of funds to cover the capital and operating costs.

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Financial Analysis of Projects: Some Analytical Concepts (cont.)

- Financial costs and benefits:
 - “Financial costs” are all expenditures paid for executing a project activity, including investment and operating cost;
 - “Benefits” include revenues received and intangibles (e.g., better education or health). The latter, even if can be put in monetary terms, is not included in the financial analysis;
 - Government contributions or foreign grants are revenues;
 - A project is not financially viable if its “financial worth” (the sum of net monetary benefits) is negative, but may still be justified on social or economic benefits; and
 - Since all costs and benefits accrue over time in different amounts, they must be reduced to a common denominator, the present value equivalent, by appropriate discounting.

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Financial Analysis of Projects: Some Analytical Concepts (cont.)

- Data used in financial analysis:
 - Revenue estimates:
 - the number of output units sold x the likely price per unit;
 - Consider “high”, “low” and “probable” prices for sensitivity tests;
 - Consider the “learning curve” for the build-up of production to full-capacity production; and
 - Revenue estimates will be difficult for non-commercial projects because they are often based on administrative prices.

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Financial Analysis of Projects: Some Analytical Concepts (cont.)

- Cost estimates:
 - “cost estimates” include both capital & operating expenses;
 - Physical and inflation contingencies must be estimated;
 - If inflation is expected to affect the sales and input prices differently, this must be considered in the financial analysis;
 - Sufficient “working capital” during the construction period;
 - “capitalize” interest payments of the construction period.

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Financial Analysis of Projects: Some Analytical Concepts (cont.)

- Financial statements:
 - The “pro forma” statements for future performance of a firm;
 - The Income Statement (Profit and Loss Statement) shows the categories of revenues and expenditures, including non-cash charges to income (depreciation, deferred taxes, etc);
 - The Balance Sheet shows the entity’s assets and liabilities:
 - Current assets: cash and convertible to cash within one year;
 - Fixed assets: land, building, equipment with life of 1 year+;
 - Other long-term assets: cost of R&D and outside engineering;
 - “Statement of Sources and Uses of Funds”

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PRIORITIZATION OF PROGRAMS AND PROJECTS

Financial Analysis of Commercial Projects

- What are the objectives of the financial analysis?
 - Estimate the “financial worth” of the project (FIRR);
 - Assure “return on equity” is adequate;
 - Assure “financial resources=>investment+operating costs”
 - Cash flow analysis: receipts & payments are synchronized
 - Assure that the “debt service coverage” is provided.
 - Sensitivity analysis.



PRIORITIZATION OF PROGRAMS AND PROJECTS

Financial Analysis of Commercial Projects (cont.)

- Methods of Analysis: The data in the financial statement is analyzed with the help of some ratios:

– FIRR= (i) , which makes:
$$\sum_{t=1}^n \frac{B_t}{(1+i)^t} - \sum_{t=1}^n \frac{C_t}{(1+i)^t} = 0$$

– NPV=
$$\sum_{t=1}^n \frac{B_t}{(1+i)^t} - \sum_{t=1}^n \frac{C_t}{(1+i)^t}$$
, where (i) chosen in advance and
if NPV=or>0, the project is acceptable



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PRIORITIZATION OF PROGRAMS AND PROJECTS

Financial Analysis of Commercial Projects (cont.)

- Net Profit = All revenues – All costs
 - Costs = production costs + administrative (overhead) costs + import duties + taxes + depreciation + amortization + interest on debt
 - The best measures of a project's profitability are FIRR and NPV because they consider benefits' and costs' time profiles beyond the annual statements.
 - Some ratios as indicators of the overall efficiency of funds' use:
 - Annual net profit / sales
 - Annual net profit / total assets
 - Annual net profit / equity
- Leverage is the effect of debt on the profitability of an equity investment;
 - The debt / equity ratio measures the effect of debt on the project stability;
 - Consider both short- and long-term debt in computing the debt/equity ratio.

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Financial Analysis of Commercial Projects (cont.)

- The Liquidity Analysis ascertains if all the expected expenses in a year are covered by expected receipts. The relevant ratios:
 - The current ratio = current assets / current liabilities.
 - Current assets=cash+marketable securities+receivables+inventories
 - Current liabilities=taxes+short term loan repayments+annual principal repayments of long term loans+accounts payable
 - The quick ratio ("acid test")=(current assets-inventories) / current liabilities.
 - Debt service coverage=sources of funds/debt service requirement

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Financial Analysis of Commercial Projects (cont.)

- **Sensitivity Analysis:**
 - There will always be sufficient uncertainties in most estimates and assumptions underlying any project's profitability and financial stability; hence need for examining the effects of changes in them.
 - Particularly important factors are: construction and operating costs, sales prices, total production, and the length of construction period.
 - If tests with changes in these factors show that the project will not be financially viable, then estimate the probability of a given change.
- Such assessment of probability is called "risk analysis", and taking steps to minimize it is called "risk management".

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PRIORITIZATION OF PROGRAMS AND PROJECTS

Financial Analysis of Non-Commercial Projects

- **Scope of Analysis:**
 - Most public sector investments are aimed at improving socio-economic infrastructure of the country;
 - Such projects often do not generate any or sufficient revenues;
 - Hence, FIRR and NPV cannot be calculated to justify them;
 - The role of financial analysis is to determine whether the project will
 - Achieve its expected results at the least cost possible, and
 - Have sufficient resources available to meet its costs on time.

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Financial Analysis of Non-Commercial Projects

- **Cost Effectiveness Analysis (CEA):**
 - Benefits and costs are identified, but only costs are monetized;
 - Benefits are difficult or impossible to quantify and to express in monetary terms;
 - CEA can take three basic approaches:
 - First establish the expected result and then examine different means of achieving that result;
 - In the second approach, a predetermined funding is available in a certain area (child health care) and the consequences of using that money in alternative ways are examined;
 - Identify a number of results required for a Strategic Objective and examine the cost differences to achieve them, and then consider which results seem most reasonable in view of the costs involved.
 - Unit cost = (annualized investment costs + annual operating costs) / annual number of output units.

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Financial Analysis of Non-Commercial Projects

- **Recurrent Cost Analysis:**
 - Recurrent costs (operating expenditures) include:
 - Wage and salary payments
 - Utility costs
 - Raw material purchases
 - Maintenance and repair expenses
 - Replacement of worn-out equipment
 - Debt service payments, etc.
 - The financial analysis must examine whether or not sufficient funds are made available to cover these costs when needed during the life of the project.

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Financial Analysis of Non-Commercial Projects

- **Recurrent Cost Analysis:**
 - Prepare the annual budget of the project, containing all operating expenditures and sources of funds;
 - Examine the government's past recurrent cost performance and the projections for the coming years, particularly w.r.t. the project sector
 - If the above analyses show potential problems, then
 - Modify the project design (e.g., user fees and other revenue measures)
 - Analyze the project impact on government revenues and expenditures in case the net revenue impact may justify the needed govt support;
 - Analyze the likelihood of other donors providing support to the project;
 - Analyze the causes of persistent recurrent cost problems and remedies
 - Consider abandoning the project.

AZERBAIJAN REPUBLIC

MINISTRY OF ECONOMIC DEVELOPMENT

Policy-Based Prioritization of Public Investment Projects

A Sample Method

The PIPP Manual emphasized the importance of both micro- and macro-policy-based prioritization of public investment projects for screening and sifting them according to their contribution to the national and sectoral development objectives and strategies, particularly to reduction of poverty and regional imbalances (see par. # 4.6.2.8). Such qualitative (non-quantitative) prioritization, however, involves using various ranking and weighting methods. There are no internationally adopted standard methods that can be recommended for use by GOAZ. MOED and MOF should jointly develop, in cooperation with LMs/agencies and State research institutes, appropriate ranking and weighting systems for policy-based prioritization of public sector projects. Three examples of such systems, which can be found in the web-sites of other countries' planning and budgetary agencies, are provided here to help the subjected understood better.

Example 1: A hypothetical example developed by the USAID/PIP Project:

Policy Criteria	Weights	Projects			
		a	b	c	d
A	30	4	3	1	2
B	35	1	4	2	3
C	20	4	1	2	3
D	15	2	3	4	1
TOTAL	100	265	295	200	240

A LM/agency has 4 projects (a, b, c, and d) and ranks them against each of the four policy criteria, which were established and weighted jointly by MOED and MOF and approved by HPPC. The hypothetical Example 1 shows that the LM/agency's projects portfolio comprises 4 projects and they are prioritized as b, a, d, and c on the basis of the four policy-based criteria.

Example 2: The following example is taken from the US Federal Government's General Accounting Office publication

Prioritizing Projects within a Portfolio

Capital assets should be compared against one another to create a prioritized portfolio of all major capital assets. Just as an individual invests in a diverse portfolio of securities, agencies invest in a diverse portfolio of capital assets. For the individual investor, returns are measured in dividends or capital gains. While the benefits and costs

of capital asset portfolios should be quantified in monetary terms when feasible, agencies also measure return on the basis of outputs and outcomes.

For the individual investor, some investments are more risky than others. Similarly, an agency's capital asset investments have various levels of risk. Sound planning for procurement and operational management can mitigate risk. But *all* assets, especially those requiring extensive development work before they can be put into operation, are inherently risky and should be justified by high return. Agencies should choose a portfolio of capital investments that maximize return to the taxpayer and the Government -- at an acceptable level of risk.

One approach to devising a ranked listing of projects is to use a scoring mechanism that provides a range of values associated with project strengths and weaknesses. Figure 8 on the following page shows examples of how some key risk and return criteria might be scored. These examples are drawn from multiple best practices organizations. Higher scores are given to projects that meet or exceed positive aspects of the decision criteria. Additionally, in this example, weights have been attached to criteria to reflect their relative importance in the decision process. To ensure consistency, each of the decision criteria should have operational definitions based on quantitative or qualitative measures. A scoring and ranking process, such as the one depicted in Figure 8, may be used more than once, and in more than just this step to limit the number of projects that will be considered by an executive decision-making body.

An outcome of such a ranking process might produce three groups of projects:

- **Likely winners.** One group, typically small, is a set of projects with high returns and low risk that are likely "winners."
- **Likely drop-outs.** At the opposite end of the spectrum, a group of high-risk, low-return projects that would have little chance of making the final cut.
- **Projects that warrant a closer look.** In the middle is usually the largest group. These projects have either a high-return/high-risk or a low-return/low-risk profile. Analytical and decision-making energy should be focused on prioritizing these projects where decisions will be more difficult. At the end of this step, senior managers should have a prioritized list of capital investments and proposals with supporting documentation and analysis.

Example 3: The following example is taken from the World Bank, "Russia: Towards Improving the Efficiencies of Public Investment Experience", Report No. 22693-RU, pp.62-65.

Sample approach for prioritizing projects

<i>Economic Internal Rate of Return</i>	
Given criterion is useful for comparing projects distinguished by various risk levels. Projects with higher internal rate of return (IRR) value shall have more priority compared to projects with lower IRR.	IRR>60% - 7 points 60%>IRR>40% - 5 points 40%>IRR>30% - 3 points 30%>IRR>20% - 2 points 20%>IRR>10% - 1 point IRR<10% or no calculation – 0 points
<i>Social significance of a project</i>	
Evaluation of a project is based on adequacy to the following aspects of social significance: <ul style="list-style-type: none"> • Provision of housing for public servants and re-deployed servicemen • Improving employment of the population and reduction of unemployment • Improving access to the quality health services • Improving access to the quality education services • Poverty reduction: <ul style="list-style-type: none"> - Provision of sufficient potable water supply to the population Reduction of death-rates - Improving the scope of secondary education cover - Enhancement of economic opportunities for the poor - Ensuring access to provision of social services for the poor - Coverage of distant rural districts • Environmental concerns of the project 	Evaluation is based on summing-up of applicable aspect-specific points. 4 points 2 points 2 points 2 points 4 points 2 points 2 points 4 points 4 points 2 points 4 points
<i>Environmental safety of the project</i>	
Evaluation of environmental safety of the project (taking into consideration environmental pollution contingencies and utilization of limited irreplaceable natural resources).	
Environmental safety of a project	4 points
A project involves avoidable contingencies	2 points

A project bears high hazard of risk for the environment	(-4) points
<i>Internal co-financing (from the budgetary resources) requirement</i>	
Considering certain difficulties with provision of internal co-finance, absence of the requirement demanding obligatory participation of the Government in co-financing of a part of a project's cost is thought an advantage.	Up to 10% of the overall cost of a project – 4 points
	10% to 20% of the overall cost of a project – 2 points
	More than 20% of the overall cost of a project – (-2) points
<i>Terms of procurement within the framework of a project</i>	
A project that implies procurement of work, goods or services based on competitive bidding, invites maximum possible amount of participants to take part in the bidding and has no restriction on amount and pattern of bidding participants, shall have more priority over the projects that impose restrictions on bidding.	No restriction on bidding – 4 points
	Purchase of work, goods and services from domestic sources only – (-2) points
	Bidding is not allowed (instead, work, goods or services are purchased directly) – (-4) points
<i>Project-related risks</i>	
Priority of a project depends on the level of risks involved. Higher risks result in substantial decrease of a project's priority.	Insignificant risks – 3 points
	Moderate risks – 2 points
	Substantial risks – 1 point
	High risks – 0 points
<i>Project implementation evaluation (for current projects)</i>	
Based on use of special indicators each of the projects is evaluated in terms of implementation and accomplishment of tasks and goals set within the framework of the project. Unsatisfactory implementation of a project shall result in less priority compared to the successfully accomplished ones.	Procurement quality: Satisfactory – 1 points Unsatisfactory – (-1) points
	Compliance with the project implementation timetable: Compliant – 1 points Non-compliant – (-1) points

	<p>Project finance development rates:</p> <p>Satisfactory – 1 points Unsatisfactory – (-1) points</p> <p>Quality of work, goods and services:</p> <p>Satisfactory – 1 points Unsatisfactory – (-1) points</p> <p>Compliance with the tasks and goals of a project:</p> <p>Compliant – 1 points Non-compliant – (-1) points</p> <p>Evaluation of compliance is premature – 0 points</p>
<i>Evaluation of implementer's capacity for maintenance and exploitation of the resources acquired</i>	
<p>Should the end-implementor have no sufficient amount of finance to maintain and utilize/exploit resources purchased on account of borrowed funds (including specialists who are knowledgeable, skillful and experienced enough to be capable of maintaining and utilizing resources purchased), the consequence is less priority of a project.</p>	<p>Sufficient capacity / amount of finance – 2 points</p> <p>Insufficient capacity / amount of finance – (-2) points</p>
<i>Inspecting quality of preparation for a project</i>	
<p>Quality of preparation for a project is being appraised based on availability of detailed project documentation (terms of reference) as well as project auditing results. Absence of detailed Terms of Reference as well as negative auditing results considered disadvantage at evaluation of a project.</p>	<p>Available terms of reference and the auditing results are positive – 2 points</p> <p>Terms of reference are not available or in the making – 0 points</p> <p>Terms of reference are available, yet auditing results are negative – (-2) points</p>
<i>Availability within executive agency (ministry / department) of a structural unit responsible for administering sector investment projects associated with the project under consideration</i>	

<p>Availability within executive agency (ministry / department) of a structural unit (several structural units) that is responsible for administering sector investment projects associated with the project under consideration, and has experience of implementing various international projects is considered advantage at evaluation of the project.</p>	<p>Availability of such executive agency and correspondent experience in implementation of international projects – 2 points</p> <p>Availability of such executive agency – 1 point</p> <p>Absence of such unit – 0 points</p>
<p>Maximum aggregate result: 37 points</p>	

The above weighting scheme gives higher weights to projects for capital repairs and equipment purchases, and against new construction. This is important to address the rapid depreciation of the capital stock and its efficiency. The weighting scheme also gives preference to projects with low future recurrent costs which would help to minimize future costs and enable the sustainability of the new investments.



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PUBLIC INVESTMENT POLICY PROJECT

TRAINING WORKSHOP FOR TECHNICAL STAFF

**PUBLIC INVESTMENT POLICY and INTEGRATED PROJECT
ANALYSIS**

ECONOMIC ANALYSIS OF PROJECTS

**(Identification, Quantification and Valuation of Costs
and Benefits)**



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ECONOMIC ANALYSIS OF PROJECTS

Identification and Quantification of Costs and Benefits

- **General Principles:**
 - Main steps for analyzing the economic viability of a project:
 - Identify economic costs and benefits;
 - Quantify them;
 - Value them; and
 - Compare the benefits with the costs.
 - The comparison of with- and without-project situations is at the heart of the estimation of benefits of any project.
 - Effects of marginal v. large projects.
 - Importance of the distinction between nonincremental and incremental output and inputs.



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ECONOMIC ANALYSIS OF PROJECTS

Identification and Quantification of Costs and Benefits

- **Benefits:**
 - Directly productive projects' benefits: Production that is sold (incremental or non-incremental; traded or non-traded);
 - Indirectly productive projects' benefits:
 - quantifiable through time and cost saving, improved access, improved health, etc.;
 - Non-quantifiable benefits should be stated along with an estimate of the number of beneficiaries;
 - The extent of any consumer surplus.

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ECONOMIC ANALYSIS OF PROJECTS

Identification and Quantification of Costs and Benefits

- **Costs:** the difference in costs between the without- and with-project situation;
 - System costs may arise if a project is part of a larger system;
 - Sunk costs;
 - Contingencies (physical and price contingencies ?);
 - Working capital is defined as "net current assets": inventories+net receivables+marketable securities+ bank balances+cash in hand (how is it treated in economic analysis?);
 - Transfer payments do not increase or decrease the availability of real resources to the economy, but affect the distribution of financial costs and benefits between the project entity and other entities.
 - The tax/subsidy is included in the economic cost if the demand is nonincremental;
 - The tax/subsidy is included in the economic cost if it is to correct an externality;
 - Any tax element in the market price of a marketable output will be included in its economic value.

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ECONOMIC ANALYSIS OF PROJECTS

Identification and Quantification of Costs and Benefits

- **Costs (cont.):**
 - Depreciation: the economic cost flow already includes real initial investment and replacement/maintenance investments;
 - Depletion premium: nonrenewable natural resources cannot be replenished and their opportunity cost includes the cost of substitutes when they are exhausted;
 - External costs: the external effects may include significant costs that can or cannot be measured .

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of Economic Costs and Benefits

- **Basic Principles and Concepts of Prices:**
 - Use of common criteria for valuation: financial prices;
 - Use of constant prices
 - Shadow prices:
 - The main differences between the economic and financial values:
 - Government taxes and subsidies
 - Excess operating surplus
 - Foreign exchange premiums
 - Producer and consumer surplus
 - Positive and negative externalities

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- The economic price of the output or input is based on the weighted average of its demand and supply price. The weights depend on the relative importance of:
 - Incremental outputs and inputs
 - Non-incremental outputs and inputs
- In valuing project outputs and inputs, economic costs and benefits are divided into:
 - Traded outputs and inputs
 - Non-traded inputs and outputs



Summary of Basis of Economic Valuation of Project Outputs and Inputs

In summary: Basis of Economic Valuation of Project Outputs and Inputs	“Incremental”	“Non-Incremental”
Outputs	Adjusted demand price or willingness to pay	Adjusted supply price or opportunity cost
Inputs	Adjusted supply price or opportunity cost	Adjusted demand price or willingness to pay



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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- World Prices: Trade represents an alternative to domestic production for most goods and services. Hence, outputs and inputs can be valued from the national point of view using world market prices.
- World prices will differ from domestic prices used in the financial analysis.

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- Adjusting financial prices to world prices:
 - Excludes all tax and subsidy elements from the project input costs
 - Ensures outputs are valued at their worth to the nation
- The valuation of outputs and inputs through world prices requires that the trade effects of each project item are identified
- The valuation of traded goods depends upon whether supply and demand are fully incremental, and therefore on the elasticity of supply and demand.

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- There are 4 main cases (of how to value inputs and outputs):
 - Incremental outputs that are exported can be valued at the export demand price
 - Output that substitute for imports can be valued at the import supply price
 - Incremental inputs that are imported can be valued at the import supply price
 - Inputs that reduce the level of exports can be valued at the export demand price

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of Economic Costs and Benefits

- Adjusting border prices:
 - The project's effects on traded goods and services can be directly measured through their border price equivalent value (BPEV). BPEV is the the world price for the traded product for the country adjusted to the project location. Adjusting goods at their BPEVs adjusts for the effects of various factors.
 - Border prices for exported outputs have to be adjusted to the project location, by subtracting costs of transport, distribution, handling, and processing.
 - Border prices for imported inputs have to be adjusted by adding such costs to the point of the project site.

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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- The demand price for an exported output is its FOB price (FOB: free on board, the seller delivers goods loaded on the ship at the nominated port and the buyer bears all costs from that point onward)
- CiF – Cost, insurance, freight – the seller delivers goods with transport costs and insurance covered up to the nominated point of delivery



A) Valuation of economic costs and benefits: Getting the Prices Right. Summary for Valuing main project outputs and inputs

Adjusting Prices with World Prices...	Category	Project Impact	Basis Of Econ. Price	Basis of Valuation
Output	Tradable Non-Tradable	Incr. Non-Inc Incr. Non-Incr/.	Dem. Pr	WMP(=FOB
			Sup. Pr.	WMP=CIF
			Dem. Pr.	DMP+CT
			Supply price	DMP-PT-OS
Input	Tradable Non-Tradable	Incremental Non-Increm. Incremental Non	Supply price	WMP=CIF
			Demand price	WMP=FOB
			Supply price	DMP-PT-OS
			Demand price	DMP+CT



ECONOMIC ANALYSIS OF PROJECTS

Valuation of Economic Costs and Benefits

- Legend for Table (the previous slide)
 - CIF - Cost insurance freight
 - CT - Net consumption tax
 - DMP - Domestic market price
 - FOB - Free on board
 - OS – Operating surplus
 - PT - Net production tax
 - WMP - World market price



ECONOMIC ANALYSIS OF PROJECTS

Valuation of Economic Costs and Benefits

- Conversion Factor: When the border price economic value is adjusted for project location, it can be compared with the financial price (resulting in a conversion factor)
 - $CF = \frac{BPEV}{FP}$
 - CF=conversion factor
 - BPEV=border price economic value
 - FP=Financial price
 - If the CF is less than 1, this reflects a protected output and input. If CF is greater than 1, occurs when export items are heavily taxed.



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ECONOMIC ANALYSIS OF PROJECTS

Valuation of economic costs and benefits

- Economic Pricing of Non-traded Goods and Services:
 - Goods & services may be non-traded for different reasons: (ex., public utilities, social sector, env. Projects all produce effects which are non-traded);
 - Non-traded output and input, sold on the domestic market, are also valued at economic prices;
 - Since demand for non-traded goods is from within the domestic economy only, a project may have significant impact on the average cost of production and the supply and demand prices.

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A) Valuation of economic costs and benefits: Getting the Prices Right

6. Economic Price of Labor

- (a) Basic principle: value labor is to estimate the opportunity cost to the economy when labor migrates between places or jobs to join the project, plus additional costs associated with the migration
- (b) Two basic categories: scarce & surplus
- (c) Scarce labor –
- (d) Surplus labor
- (e) Shadow wage rate factor: it is ratio between its economic and financial prices. $SWRF = \frac{OC + \text{other econ. Costs}}{\text{wage rate}}$

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A) Valuation of economic costs and benefits: Getting the Prices Right

7. Economic Price of Land

- (a) Opportunity cost of land- Value of land is best determined through its opportunity cost. The opportunity cost of land is equal to what it would have produced without the project
- (b) Resettlement cost – The economic costs of resettlement must also be included in the cost of land, if not already included in the project cost.



A) Valuation of economic costs and benefits: Getting the Prices Right

8. Bringing economic prices to a common base:

- (a) Items valued at BPEV: Traded goods and services, the opportunity cost of surplus labor, the opportunity cost of land and non-traded goods with increasing supply are all valued at the BPEV.
- (b) Non-traded outputs, the opportunity cost of scarce labor, non-traded products in fixed supply will all be initially valued at domestic market prices (DMP)
- (c) These two forms of valuation, BPEV and DMP, need to be brought to a common base so that they can be aggregated and compared



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A) Valuation of economic costs and benefits: Getting the Prices Right

(d) Shadow exchange rate is the weighted average of imports and exports in domestic prices to the border price equivalent value of the same goods. The shadow exchange rate is estimated by comparing the demand for, and supply of, foreign exchange for trade purposes

- The shadow exchange rate factor (SERF) is calculated as the ratio of the shadow exchange rate to the official exchange rate (generally, will be greater than 1)

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A) Valuation of economic costs and benefits: Getting the Prices Right

- (e) Domestic Price numeraire – The method of adjusting border prices equivalent values to the equivalent values to the equivalent domestic price level (that is, applying the SERF to the border price equivalent value of all traded outputs and inputs).
- (f) World price numeraire. Alternatively, apply the standard conversion factor (SCF), which is the inverse of the SERF. For economic analysis using the world price numeraire, the SCF is applied to all project items valued at their domestic market price values to convert them to a border price equivalent, while items valued at their border price equivalent value are kept the same. The SCF is applied to non-traded goods.

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A) Valuation of economic costs and benefits: Getting the Prices Right

9. Conversion Factors: there can be 3 types of conversion factors to make needed price adjustments (usually non-traded goods).
- For specific project items (main outputs and inputs, which are non-traded)
 - For groups of typical items (grains, construction)
 - For the economy as a whole (as in the SERF, or SCF)

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A) Valuation of economic costs and benefits: Getting the Prices Right

- (a) Shadow prices" may be used in estimating the WTP and the WTA values when there are market distortions due to:
- Government intervention
 - Macroeconomic policies
 - Imperfect competition
- (b) Shadow prices take into account the major impacts of project where economic values differ from financial prices. The key parameters which often require price adjustments refer to foreign exchange rates, labor wage rates (especially unskilled), and a "standard conversion factor" which often is applied to other key input and output financial prices (rather than having to estimate specific conversion factors) (economic price/financial price= conversion factor). (more on this subject later).

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A) Valuation of economic costs and benefits: Getting the Prices Right

10. Summary of economic price adjustments: 10 Step Procedure.....

- (a) Choose the numeraire to be used
- (b) Estimate the SERF or SCF
- (c) Revalue the main outputs and inputs having a trade effect at BPEVv. Use the SERF/SCF estimate to bring traded/non-traded items to a common basis
- (d) Obtain willingness to pay or other valuation for non-traded outputs
- (e) Identify any non-traded inputs that are crucial to the project and for which financial prices incorporate a significant tax, or more likely, subsidy element. Estimate a specific conversion factor for each item.

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A) Valuation of economic costs and benefits: Getting the Prices Right

(f) Estimate a SWRF (shadow wage rate factor) for project labor

(g) Estimate the economic value of land using the SERF or SCF, depending on the numeraire used.

(h) Calculate the NPV and IRR

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B) ASSESSING ENVIRONMENTAL SUSTAINABILITY

1. Key Principles:

- Environmental sustainability is a key element in the project's overall sustainability. Environmental effects should be valued and included in the economic analysis of projects
- Monetary values can be placed on all types of environmental effects to determine the "tradeoffs" of development and environment.

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B) ASSESSING ENVIRONMENTAL SUSTAINABILITY

2. There are 4 broad approaches to value environmental costs and benefits.

- (a) Market prices- use this when environmental damage leads to losses in productivity or adverse health effects, market prices are used. But they rely only on income losses, at the more structural level (e.g., damage due to soil erosion, deforestation, and pollution)

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B) ASSESSING ENVIRONMENTAL SUSTAINABILITY

- (b) Costs of replacement – respond to environmental damage by making expenditures to avert damage, or pay for damage already done. (losses of soil fertility can result from the erosion, or polluted water supplies requires buying water from vendors)
- (c) Surrogate markets – environmental degradation be valued though effect on other markets (especially property values/labor) (jobs with env risks have higher risk premium)

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B) ASSESSING ENVIRONMENTAL SUSTAINABILITY

- (d) Surveys – People can be directly questioned to find what value they place on environmental change or natural resources, the amenity value to historical landmarks, or willingness to pay for better access to clean water and improved sanitation
- (e) Market-based control mechanisms- they directly alter incentives through the price mechanism, and generate positive effects:
 - Help reduce environmentally damaging subsidies
 - Increase environmentally improving taxation

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B) ASSESSING ENVIRONMENTAL SUSTAINABILITY

(f) All environmental effects have to be:

- Valued at economic prices
- Expressed using the same numeraire as other project effects (ref. above discussion)



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PUBLIC INVESTMENT POLICY PROJECT

TRAINING WORKSHOP FOR TECHNICAL STAFF

**IMPROVED PUBLIC INVESTMENT POLICY,
INTEGRATED PROJECT ANALYSIS IN THE
PROJECT CYCLE:**

FROM KEY CONCEPTS TO PRACTICE –

(“Project Analysis: Key Concepts and Tools”)



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LEARNING OUTCOME OBJECTIVES

- An enhanced operational understanding and approach to carrying out the distributional analysis of project analysis
- An improved operational understanding of key concepts and tools for carrying out the poverty assessment of projects (with strong linkage to the SPPRED framework, strategies, and emerging results)



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A) Distribution of Project Benefits: Key Concepts and Tools

1. Key concepts/considerations

- (a) Project approval, implementation and especially sustainability is strongly affected by:
- Who benefits, and by how much
Relative to
 - Who pays

For example, in lending to the private sector the distribution of project benefits among Government, consumers, private investors is a key factor in:

- Negotiating "Build-Own-Operate-Transfer (BOOT) agreements
- Pricing services
- Recovering costs
- The economic return to the national economy

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A) Distribution of Project Benefits: Key Concepts and Tools

- (b) During project preparation and appraisal (and in the M&E indicators), it is important to:

- The identity of the main stakeholder groups that gain or lose as a result of the project
- The estimated size (or relative magnitudes) of the gains and losses in the distribution of project effects

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A) Distribution of Project Benefits: Key Concepts and Tools

2. The identity of the main groups that gain or lose from a project include:
 - The owners of project operating entity
 - Those working in the project (PIU)
 - The Government
 - The consumers of project "outputs"
 - Those providing material inputs to the project (or suppliers)
 - Lenders to the project
 - Other(s)?????

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A) Distribution of Project Benefits: Key Concepts and Tools

- 3. The size of the gains and losses in the distribution of project effects**
 - (a) The second step is to analyze and document the distribution of the economic benefits and costs, over and above financial benefits and costs
 - (b) The differences between financial and economic costs and benefits should be allocated to the project stakeholders and participants
 - (c) Distribution analysis will identify which groups benefit and who pays the cost
 - (d) Distribution analysis can look at the same project from 3 different perspectives

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A) Distribution of Project Benefits: Key Concepts and Tools

4. Distribution analysis – Perspective 1

- Distribution analysis can show the extent to which public pricing policy can affect the share of the private and public sectors in the net benefits of a service project
- It can also be used to test the extent to which the project design directs benefits to particular income groups

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A) Distribution of Project Benefits: Key Concepts and Tools

5. Distribution Analysis – Perspective 2

- A second form of distribution analysis considers the distribution of incremental net benefits among beneficiary groups according to their income level
- Such statements, showing the distribution of financial benefits, can be the basis of assessing the division of benefits between the poor and non-poor

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A) Distribution of Project Benefits: Key Concepts and Tools

6. Distribution Analysis – Perspective 3

- A third form of distribution analysis considers the effects of using foreign resources in production and funding
- The use of foreign financing, either equity or loans, results in:
 - An initial inflow of capital into the country
 - But an outflow in later years to service foreign debt and interest payments, and
 - The repatriation of foreign equity, capital gains and earnings

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A) Distribution of Project Benefits: Key Concepts and Tools

- Increased prices or tariffs on project outputs will increase the revenues of the foreign investor and therefore, potentially increasing the outflow of benefits from economy
- Increased prices or tariffs on project inputs (or outputs for nontradable benefits) will increase the benefits to the economy.

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PROJECT CASE STUDY TEAM EXERCISES

- 1) Exercise # 3: Distribution of Benefits
- 2) Some other questions:
 - What aspects of your project makes it important to include a sound distributional and stakeholder analysis as part of the overall project analysis?
 - What is the approach used in your case study project to assess the distribution of benefits?
 - What is your qualitative re-assessment of the distribution of incremental net benefits for your project? (consider the nature/scope of benefits, and approach taken)
 - What approach would you take to re-assess the poverty impacts of the project?

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B) Impact on Poverty Reduction

1. Key principles
 - Poverty reduction is the most formidable development challenge in most developing countries, including Azerbaijan
 - To reduce poverty some projects target the poor directly, but most aim at economic growth, benefiting the poor indirectly as well as directly.
 - This presentation will show how to trace the economic impact of "growth" projects on the poor

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B) Impact on Poverty Reduction

2. Summary of lessons from good practices (ref. book by J. Baker on Evaluating Project Poverty Impacts)
 - Early and careful planning of the evaluation design (in project preparation and design of M&E system)
 - Practical approaches to evaluation when there is no baseline
 - Dealing with constraints on developing good controls
 - Combine appropriate methods/techniques
 - Exploit existing data sources
 - Consider costs and financing aspects
 - Consider political economy issues

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B) Impact on Poverty Reduction

3. Methodology: The poverty-reducing impact of a project is traced by evaluating the expected distribution of incremental net economic benefits to different groups.

(a) The steps are as follows:

- estimate the present value of incremental net financial benefits by each participating group
- Add the difference between net benefits by group at economic and financial prices to net financial benefits by group to give the distribution of net economic benefits by group.
- Finally, the net economic benefits accrue to the poor according to the proportion of each group that is poor. A poverty impact ratio expresses the proportion of net economic benefits accruing to the poor. It can be calculated by comparing net economic benefits to the poor with net economic benefits to the project as a whole.

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B) Impact on Poverty Reduction

(b) Framework for the poverty analysis:

- For the purpose of poverty impact analysis, project beneficiaries are divided into three national groups: the poor, the nonpoor, and the government
- Net economic benefits by group are distributed between the poor and the nonpoor, according to the extent that they benefit the poor. In the case of net economic benefits to the government, it is assumed that 50 percent potentially benefit the poor.
- The present value of project capital costs is \$25 million at border prices..

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Case Study Team Exercise

- 1) Exercise #4: On Poverty Reduction (example of a water supply project) (see handout)
- 2) Some other key questions for Team Exercise:
 - What is the approach used in your case study project to assess the project's expected poverty impact? And to assess the poverty impact in the project's Monitoring & Evaluation System?
 - What approach would you take to re-assess and refine the poverty impacts of the project?

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**PIP Training Workshop Round III
Summary Evaluations of Participants (November 2006)**

Sector Team/Name	Class Participation (25%)		Mid-Training Test (25%)		Case-Study Team Presentation (25%)		Final Exam (25%)		Final Grade	GRADE
	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)		
MOED										
Agil Asadov	85		85				80			
Zahira Mahmudova	95		81				70			
Ilkin Medjidov	85		79				90			
Xuraman Nagiyeva	95		80				86			
Ulvi Xalafov	85		75				76			
Cahandar Gadirov	95		79				77			
COM										
Ruqiyat Mamedova	90		76				90			
Aytan Nazarova	90		80				70			
MOF										
Khanlar Khanlarov	100		84				73			
Sevinj Alizade	90		80				81			
MOIE										
Vuqar Alakbarov	85		78				80			
Vusal Ahmadov	80		80				70			
MOT										
Valeh Khubanov	80		83				85			
MOE										
Natiq Aliyev	80		66				64			
MOA										
Atash Nuriyev	80						95			
Matlab Mehtiyev	75		86				75			
Rasim Guliyev	90		78				88			
MOENR										
Nasib Orucov	80		69				88			
Mammadhuseyn Muslumov	100		86				86			
MOCT										
Rashad Babayev			78				86			
Nazim Abdullayev	90		71				81			
Emin Khalilov	90		65				80			
CIWE										
Rafael Mamedov	100		78				98			
Rasul Pashayev	100		79				90			
Telman Mustafayev	80						83			
MOH										
Yashar Aliyev	70		65				60			
Solmaz Imanova	70		65				65			

**PIP Training Workshop Round IV
Summary Evaluations of Participants (December 2006)**

Sector Team/Name	Class Participation (25%)		Mid-Training Test (25%)		Case-Study Team Presentation (25%)		Final Exam (25%)		Final Grade	GRADE
	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)	(out of 100%)	(Weighted Percentage)		
MOED										
Shovgi Guliyev	95		62				85			
Rukhsara Vezirova	90		83				90			
Mekhiti Safarov	85		80				95			
Jabrail Ahmadov	75		89				90			
Emil Gojayev	90		85				73			
Aliyeva Parvana	100		85				90			
Qasimli Faiq	85		86				90			
COM										
MOF										
Ramil Rajabov	90		84							
Mammadov Zohrab	100		70				85			
MOIE										
Nigar Mamedova	100		79				87			
Tarana Guliyeva	90		76				80			
MOT										
Rovshan Badalov	85		85				76			
MOE										
Mammadov Jeyhun	100		83				85			
Mammadov Namiq	100		73				86			
MOA										
Anar Mirzayev	80		77				85			
Suleyman Jalilov	95		82				90			
MOENR										
Maqsud Babayev	100		76				88			
Xalilov Sahib	100		85				95			
MOCT										
Sahala Tagiyeva	90		71				79			
Namiq Nabiyeu	90		78				78			
CIWE										
Vusal Samadov	85		77				81			
Tahir Ismaylov	100		90				88			
MOH										
Ahmadov Zakir	80		78				89			
Amirova Peri	40						73			

PUBLIC INVESTMENT POLICY PROJECT

PROPOSED AGENDA FOR THE STUDY TOUR TO NORWAY



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**Strategic Technical Assistance for Results
with Training**

**START/Caucasus
AZERBAIJAN FIELD OFFICE**

Training Matrix Form

.....
**If you have more than one program to propose please fill in the
training matrix form separately for each training concept.**
.....

Suggested Title of Training Event:

Top-level GOAZ delegation visit to Norway central economic ministries to learn of policy and procedures for effective economic planning and efficient public expenditure management

Date of Submission: September 21, 2006

Submitting SO Team or Implementing Partner:

USAID implementing partner – DAI-managed Public Investment Policy PIP Project (PIPP)

Your Names: Dr. Mete Durdag, COP, PIPP

Dr. Andrei Parinov, DCOP, PIPP

Ms. Sabira Shihaliyeva, Training Coordinator, PIPP

SO Team Leader: Stephen Morin, Director, EG Office, USAID

USAID Strategic Objective Name and #: USAID SO 1.3: Economic Growth

Intermediate Results #: IR 1.3.1: Improved Economic Policy Planning Governance and Regulatory Reform.

Causal links #: SO2: Democracy and Governance. IR 2.1.1: Increased capacity and demand of citizens to engage in policy and decision-making. IR 2.1.2: Strengthened institutions and opportunities for citizen participation in decision-making.

Number of Participants: 10-12 senior level executives from the Government of Azerbaijan

Participant Profile: Deputy Minister responsible for macroeconomic, fiscal and monetary policy as well as public investment policy/programming in Azerbaijan

Location of Training: Norway

Duration of Training: One week (5 work days)

Preferred Start Date: December 2006 (1st part), when the annual FY 2007 Consolidated Budget is submitted to the Parliament for approval. Alternatively, the travel dates may be different, depending on program preparations, as agreed upon with the Norwegian authorities and the counterpart agencies

Suggested Training Provider(s): The training event is to be coordinated in cooperation with the Norwegian Embassy in Baku

Training Provider Procurement Mechanism:

- Competitive**
- Non-competitive**
 - Cost Share**

Training provider/USAID Partner will charge no tuition for the classroom components of the training activity; out-of-pocket costs will be charged with no fee or overhead.

If cost share, please list any/all additional expenses that the implementing partner will cover: NA
 - Off the Shelf**

The training activity is advertised with a published cost per participants and specified dates of delivery.
 - Repeat (or largely identical) of previously compete program**

And the evaluation of the program was better than average. The cost of the program should therefore decline because the development costs were captured in the original award.
 - Established relationship between Partner and Participants** *Given an established relationship between participants and the provider of technical assistance, the training will further that relationship. To move to a different provider would weaken the training.*
- Sole Source**

In any other instances, where it has been determined by the Mission that the training provider services for an event will not be competitively procured, and the circumstances of the award do not meet the criteria specified above for a non-competitive procurement, the Mission must request sole source procurement.

Background:

Since its independence Azerbaijan has undertaken intensive oil and gas exploration highlighted by the realization of the transnational Baku-Tbilisi-Ceyhan (BTC) pipeline project to export its oil to international markets. Oil production is expected to peak around 2011, plateau for a few years and then decline by 2024 to about one-quarter of the peak level. While enjoying windfall resources from oil sales, the country continues to experience inflationary pressures, slow reengineering of its non-oil industries, pervasive poverty, and deteriorating social indicators. The challenge of handling the projected rapidly rising oil revenues through 2012 and its later decline will thus become more demanding. Experience of other oil-rich countries (Mexico, Nigeria, other) indicates inability of their governments to use oil revenues to industrialize, develop businesses, invest in infrastructure, alleviate poverty, and compete in international markets. On the other hand, Indonesia, Malaysia,

UAE, UK, and Norway have all made good use of their oil revenues and have been continuing to perform well. The oil and gas windfall could be of great benefit to Azerbaijan if it is combined with careful macroeconomic and fiscal management and highly disciplined implementation of regional development and poverty reduction strategy.

Management of rapid but controlled expansion of public capital spending requires strengthening the Government of Azerbaijan's (GOAZ) institutional and technical capacity in the areas of development planning, budget formulation, and project development and management. This involves, in the first place, developing adequate capacity to prepare a medium-term Public Investment Program in line with both macroeconomic stability goals and medium-term development objectives. In this respect, USAID has been supporting the GOAZ's efforts with the Public Investment Policy Project (March 2005 – end-2007).

The public investment policy and program of the GOAZ needs, first, to be saved from its current fragmentation by making it comprehensive of all government capital spending, whether funded from the budget or by donors, and whether undertaken by the budget organizations or by the extra-budgetary funds. Second, the public investment policy and program should be developed as an integral part of a medium-term national and sectoral development framework adopted by the GOAZ. Third, there should be only one and the same set of national and sectoral development objectives, strategies, targets and policies, common to the Poverty Reduction and the Regional Development Programs, the Medium-Term Expenditure/Budget Framework (MTEF), the Public Investment Program (PIP), and the annual State Budget. Finally, the success of the above will depend on the establishment of effective guidance, overview, and evaluation of all planning and budgetary work of both the central and line ministries by the top leadership (the President and, on his behalf, the Cabinet of Ministers).

To successfully address the Government's objective of making most efficient use of the country's resources it is critical to undertake tasks under the three major categories:

- Determination of the national and sectoral development objectives, strategies, and investment policies for medium-term planning and budgeting at both macro and sector level, in line with both SPPRED and RDP;
- Evolution of the public sector capital budget formulation as a bridge within an MTEF between development planning (i.e., SPPRED and RDP) and the Consolidated State Budget;
- Help strengthen the Government's institutional and technical capacity for a sound management of the public investment project cycle (comprising identification, appraisal, preparation, prioritization, implementation, and monitoring and evaluation) in all the budgetary organizations.

The work under each category is being carried out at three levels of the Central Government (the Cabinet of Ministers, MOED, MOF, and the National Bank of Azerbaijan), Line Ministries and Municipalities, and the non-government organizations. The focus of the USAID partner organization (the PIPP project) is at the development or improvement of the institutional, organizational, and technical capacities and the procedures and processes underlying the government's ability for sound development planning and budgeting.

Purpose of Training:

The purpose of the study tour is to demonstrate the top-level officials from the Cabinet of Ministers, the Ministry of Economic Development, the Ministry of Finance and the National Bank of Azerbaijan the progress Norway has achieved from effective and efficient macroeconomic and sectoral development framework, linking the development agenda to the fiscal envelope, and results' framework when planning and managing their public finance.

Understanding advantages of good policy work and coordination will contribute to the U.S. Embassy, USAID and PIPP goal in strengthening GOAZ institutional capacity for long-term development and policy planning, capital budgeting and sound investment policy formulation. During the past year (2005-06) the U.S. Embassy, USAID and PIPP efforts in promoting the Public Investment Policy Reform have resulted in production of the required technical rationale and procedures for institutional arrangements in support of the PIP Policy and Programming. The success in the Public Investment Policy and Programming of Azerbaijan depends on the level of continuity and determination on the part of GOAZ to improve efficiency of its policy and procedures in capital investments:

1. The newly appointed leadership in the Ministry of Economic Development and the Ministry of Finance needs to strengthen prospects for the improved economic coordination of central ministries and for long- and medium-term macroeconomic framework development. For this purpose it is critical to establish an economic sub-cabinet – the High Policy and Planning Council (as suggested by the PIP Project, or a differently structured agency as suggested by the World Bank yet with similar economic policy management functions) – to set macroeconomic goals, national development objectives, and sector and administrative unit targets and resource envelopes. There needs to be one common set of national priorities and one set of macroeconomic targets and assumptions, which will become a common denominator for the development of the State Program for Poverty Reduction and Sustainable Development, the State Budget, the Medium-Term Expenditure Framework, and the Public Investment Program.

2. The GOAZ needs to fit its public investment programming into a clear investment policy framework. Once national development policies and priorities are formulated in the long- and medium-term, the sectoral ministries can then formulate their technical development agendas with the guidance of national priorities and sectoral objectives. Under such guidance, the GOAZ agencies will deliver public goods or services, which are the only reasons for the existence of the agencies.

3. The Public Investment Program of the GOAZ needs to flow from the country's harmonized macroeconomic objectives and sector development plans. The PIP needs to be rationalized by including all types of public capital expenditures into the PIP whether they are funded from the budget or by donor loans and grants, and whether undertaken by budget organizations or by extra-budgetary funds. Of the total capital spending included in the State Budget, less than a half is included in the PIP. Externally funded public capital spending, while not in the Budget, is included in the PIP. There is a part of total public capital spending which is in neither the Budget nor the PIP. Once such fragmentation is replaced by a coherent system of PIPP management, Azerbaijan will enjoy greater economic and social benefits.

Why Norway was selected?

Economic growth and prosperity outlook: Norway is a highly developed, industrial country with an open, market-oriented economy. Ranked as one of the richest European country, it has also achieved top-rankings with regard to standards of living, life expectancy, and overall health and housing standards. **Norway has achieved this owing to its well-thought-out economic policy and regulations and effective use of its public fiscal resources for sectoral and societal development.** The high level of material wealth is partly due to the abundance of natural resources, and largely – due to market-based economy structure and effective government operation.

As mentioned above, Norway, like Azerbaijan, is a natural resource-rich country with similar territorial and population characteristics. Twenty billion barrels of oil have been pumped up from the Norwegian continental shelf since production started in June 1971. The Petroleum Directorate estimates that the undiscovered resources alone amounts to 7,3 billion barrels of oil. Approximately 80 000 people are employed in the petroleum sector in Norway today, and oil and gas comprise Norway's biggest export articles with a 47 percent share of the total Norwegian export market. On an international basis, Norway ranks third among the world's largest oil

exporters, and the industry is in the forefront in the areas of technology and environmental protection. Because less than a third of Norway's oil resources have been utilized there will probably be activity on the continental shelf for a long time to come.

Cultural heritage: The Norwegian scientist and explorer Thor Heyerdahl put forward the theory that the Norwegians have their roots in Azerbaijan. In this respect Norwegians feel obliged to share their economic and cultural heritage with the Azerbaijani distant ancestors. Hence, since independence of Azerbaijan economic and cultural relationships with Norway have strengthened and are being advanced from year to year.

Norwegian companies operate in Azerbaijan successfully: Statoil's presence in Azerbaijan goes back to 1992 when its first office in Baku was opened. It has since signed three production-sharing agreements (PSAs) and ranks today as one of the largest oil companies in the country. The three production sharing agreements includes the giant oil field Azeri-Chirag-Gunashli (ACG, 8,56% share), the gas and condensate field Shah Deniz (25,5% share) and the exploration licence Alov (15% share). Statoil is also a participant in two major pipeline projects: The Baku-Tbilisi-Ceyhan pipeline (BTC, 8,71% share) that starts operating in the first half of 2005, and the South Caucasus Gas Pipeline (SCP) that will go from Baku via Georgia to Erzurum in Turkey. Other Norwegian companies involved in the petroleum sector in Azerbaijan are Det Norske Veritas (risk evaluations etc.), Maritime Hydraulics (drilling equipment), Stolt Offshore, Marintech, Nymo AS and Rogalandsforskning. Petroleum Geo-Services has an office in Baku, but so far no operations. Within the CIS-area PGS is mainly engaged in Russia and Kazakhstan. Jotun Pait has also established their business in Baku.

By and far Norway is **the best country to be recommended for the study tour for the decision-makers:** due to Norway's market-based economy structure, national resource-based export, rational use of oil wealth, revenue base similarities, cultural and economic ties, and the historic well-established cooperation with Azerbaijan.

Behavioral Objectives:

By the end of the training what is that you want the participants to be able to do? That is, what do you want the participants to practice during the training?

PIPP Project suggests the following PIPP-related topics to be covered during the visit:

1. The legislative and institutional set-up for long-term national and sector development planning and investment policy formulation;
2. Linkages between medium-term macroeconomic and sectoral development framework;
3. Institutional arrangements in support for public investment programming, legislative and normative base in support for public investment programming;
4. PIP formulation, prioritization, substantiation, and approval for financing, and its integration with development planning, and budgeting;
5. Project preparation, appraisal and financing;
6. Oil wealth management;
7. Techniques of project analysis: financial, economic, social, technical, and environmental analysis;
8. Participatory process in PIPP preparation, approval and implementation;
9. Lessons learned from the PIPP implementation in the host country.

Expected Results:

What are the specific results are expected from the training?

The core objective of the training is to provide to the top level GOAz officials with experience of a country in the region, where the public investment program is being successfully implemented. It is expected that the participants of the Study Tour will, as a minimum be able to:

1. Understand legislative and institutional set-up for long-term national and sector development planning and investment policy formulation and see ways to translate new concepts to the Azerbaijan context;
2. Realize that strong linkages are needed between strategic, medium-term macroeconomic and sectoral development framework, and pursue with this axiom in Azerbaijan;
3. Learn of Norway-specific Public Investment Policy formulation, project prioritization, substantiation, and approval for financing, and its integration with development planning, and budgeting;
4. Gain new skills in areas of programs and projects' preparation, appraisal and financing. Realize that this is a sequential and complex process requiring a certain technical experience in project management;
5. Understand a spectrum of tasks and techniques for project appraisal from economic, financial, technical, social and other angles;
6. Realize the importance of a participatory process in PIPP preparation, approval and implementation;
7. Draft a Road Map for public investment policy and programs formulation and execution in Azerbaijan, using the best practices achieved in Norway; and
8. Get familiarized with the Results Framework the Government of Norway develops and uses in management of its public expenditures.

Obstacles:

List any obstacles to developing or carrying out the proposed training event, i.e., timing, staff availability, legislative/administrative requirements)

None. The Ambassador of Norway to Azerbaijan H.E. Steinar Gil, as a member of the Donor Revenue Management Group, is extremely active in promoting the rationale for effective and efficient use of the country's fiscal resources for public works. We assume the Economic Section of the Norwegian Embassy will be delighted of an opportunity to help in making the necessary arrangements and set meetings with the relevant government agencies in Norway as well as assist with logistic arrangements to host the top-level GOAZ delegation.

Comments/Notes:

One of the prime objectives of the USAID SO 1.3. Economic Growth portfolio is to help strengthen the GOAZ's institutional capacity for long-term sectoral development and policy planning, capital budget formulation, investment project preparation, and project appraisal. To help achieve this goal, the PIPP Project cooperates with the central economic ministries and selected line ministries to develop and implement improved procedures for: formulation of PIP; coordination of the investment plan with the government-wide consolidated budget and the medium-term expenditure framework; related development of sectoral development and policy plans for key infrastructure and social sectors; and review and approval of the PIP by the Cabinet of Ministers, the Parliament, the Government, and the public.

We believe this study tour will provide a better understanding of institutional and legal arrangements in support for the effective and efficient Public Investment Program in Azerbaijan.



To Be Completed by USAID SO Team Leader and Participant Training Coordinator:

Approved: _____

Signature: _____
SO Team Leader

Approved: _____

Signature: _____
Participant Training Coordinator

PUBLIC INVESTMENT POLICY PROJECT

PROPOSED TOPICS FOR THE TRAINEESHIP PROGRAM IN TURKEY



USAID
FROM THE AMERICAN PEOPLE

**Strategic Technical Assistance for Results
with Training**

**START/Caucasus
AZERBAIJAN FIELD OFFICE**

Training Matrix Form

.....
**If you have more than one program to propose please fill in the
training matrix form separately for each training concept.**
.....

Suggested Title of Training Event:

Traineeship for the GOAZ practitioners in policy and procedures for determination and management of the effective public investment program in Azerbaijan

Date of Submission: September 21, 2006

Submitting SO Team or Implementing Partner:

USAID implementing partner – DAI-managed Public Investment Policy PIP Project (PIPP)

Your Names: Dr. Mete Durdag, COP, PIPP
Dr. Andrei Parinov, DCOP, PIPP
Ms. Sabira Shihaliyeva, Training Coordinator, PIPP

SO Team Leader: Stephen Morin, Director, EG Office, USAID

USAID Strategic Objective Name and #: USAID SO 1.3: Economic Growth

Intermediate Results #: IR 1.3.1: Improved Economic Policy Planning Governance and Regulatory Reform.

Causal links #: SO2: Democracy and Governance. IR 2.1.1: Increased capacity and demand of citizens to engage in policy and decision-making. IR 2.1.2: Strengthened institutions and opportunities for citizen participation in decision-making.

Number of Participants: 10 senior level practitioners from the Government of Azerbaijan

Participant Profile: Senior staff and practitioners from central and line ministries involved in public investment policy and programming in Azerbaijan

Location of Training: Turkey

Duration of Training: Two weeks' individual traineeship program

Preferred Start Date: December 2006 (1st part), when the annual FY 2007 Consolidated Budget is submitted to the Parliament for approval. Alternatively, the traineeship may be organized at a later date, as coordinated and agreed upon with the counterpart agencies.

Suggested Training Provider(s): The training event is to be coordinated in cooperation with TICA (Turkey International Agency for Cooperation) Representative Office in Baku, Azerbaijan

Training Provider Procurement Mechanism:

- Competitive**
- Non-competitive**
- Cost Share**
*Training provider/USAID Partner will charge no tuition for the classroom components of the training activity; out-of-pocket costs will be charged with no fee or overhead.
If cost share, please list any/all additional expenses that the implementing partner will cover: NA*
- Off the Shelf**
The training activity is advertised with a published cost per participants and specified dates of delivery.
- Repeat (or largely identical) of previously compete program**
And the evaluation of the program was better than average. The cost of the program should therefore decline because the development costs were captured in the original award.
- Established relationship between Partner and Participants** *Given an established relationship between participants and the provider of technical assistance, the training will further that relationship. To move to a different provider would weaken the training.*
- Sole Source**
In any other instances, where it has been determined by the Mission that the training provider services for an event will not be competitively procured, and the circumstances of the award do not meet the criteria specified above for a non-competitive procurement, the Mission must request sole source procurement.

Background:

Since its independence Azerbaijan has undertaken intensive oil and gas exploration highlighted by the realization of the transnational Baku-Tbilisi-Ceyhan (BTC) pipeline project to export its oil to international markets. Oil production is expected to peak around 2011, plateau for a few years and then decline by 2024 to about one-quarter of the peak level. While enjoying windfall resources from oil sales, the country continues to experience inflationary pressures, slow reengineering of its non-oil industries, pervasive poverty, and deteriorating social indicators. The challenge of handling the projected rapidly rising oil revenues through 2012 and its later decline will thus become more demanding. Experience of other oil-rich countries (Mexico, Nigeria, other) indicates inability of their governments to use oil revenues to industrialize, develop businesses, invest in infrastructure, alleviate poverty, and compete in international markets. On the other hand, Indonesia, Malaysia, UAE, UK, and Norway have all made good use of their oil revenues and have been continuing to

perform well. The oil and gas windfall could be of great benefit to Azerbaijan if it is combined with careful macroeconomic and fiscal management and highly disciplined implementation of regional development and poverty reduction strategy.

Management of rapid but controlled expansion of public capital spending requires strengthening the Government of Azerbaijan's (GOAZ) institutional and technical capacity in the areas of development planning, budget formulation, and project development and management. This involves, in the first place, developing adequate capacity to prepare a medium-term Public Investment Program in line with both macroeconomic stability goals and medium-term development objectives. In this respect, USAID has been supporting the GOAZ's efforts with the Public Investment Policy Project (March 2005 – end-2007).

The public investment policy and program of the GOAZ needs, first, to be saved from its current fragmentation by making it comprehensive of all government capital spending, whether funded from the budget or by donors, and whether undertaken by the budget organizations or by the extra-budgetary funds. Second, the public investment policy and program should be developed as an integral part of a medium-term national and sectoral development framework adopted by the GOAZ. Third, there should be only one and the same set of national and sectoral development objectives, strategies, targets and policies, common to the Poverty Reduction and the Regional Development Programs, the Medium-Term Expenditure/Budget Framework (MTEF), the Public Investment Program (PIP), and the annual State Budget. Finally, the success of the above will depend on the establishment of effective guidance, overview, and evaluation of all planning and budgetary work of both the central and line ministries by the top leadership (the President and, on his behalf, the Cabinet of Ministers).

To successfully address the Government's objective of making most efficient use of the country's resources it is critical to undertake tasks under the three major categories:

- Determination of the national and sectoral development objectives, strategies, and investment policies for medium-term planning and budgeting at both macro and sector level, in line with both SPPRED and RDP;
- Evolution of the public sector capital budget formulation as a bridge within an MTEF between development planning (i.e., SPPRED and RDP) and the Consolidated State Budget;
- Help strengthen the Government's institutional and technical capacity for a sound management of the public investment project cycle (comprising identification, appraisal, preparation, prioritization, implementation, and monitoring and evaluation) in all the budgetary organizations.

The work under each category is being carried out at three levels of the Central Government (the Cabinet of Ministers, MOED, MOF, and the National Bank of Azerbaijan), Line Ministries and Municipalities, and the non-government organizations. The focus of the USAID partner organization (the PIPP project) is at the development or improvement of the institutional, organizational, and technical capacities and the procedures and processes underlying the government's ability for sound development planning and budgeting.

Purpose of Training:

The purpose of the study tour is to follow up on the phase I (July-August 2006) when the group of senior GOAZ officials (at the level of Deputy Ministers) learned of the Turkish Government experience in designing and implementing of effective and efficient macroeconomic and sectoral development framework, whilst linking the development agenda to the fiscal envelope, and results'

*framework in planning and managing their public finance*¹. This time it is proposed to accomplish a traineeship program for the practitioners from GOAZ so that, upon return, they will be capable to implement patterns of good practices in Public Investment Policy and Programming in Azerbaijan. Understanding the advantages of good policy work and coordination will contribute to the U.S. Embassy, USAID and the PIP Project goal in strengthening the GOAZ institutional capacity for long-term development, policy planning, capital budgeting and sound investment policy formulation.

Following approval from USAID, the PIP Project will draft individual technical scopes of work for every trainee. In addition to accomplishing individual programs the trainees will be required to produce a technical note-recommendation to their superiors on ways and methods of adopting good practices from Turkey in Azerbaijan. The trainees will serve as a valuable expert base for GOAZ in the coordinated transition to better PIP policy and management.

During the past year the U.S. Embassy, USAID and PIPP efforts in promoting the Public Investment Policy Reform have resulted in production of the necessary rationale and technical rationale and procedures for institutional arrangements in support of the PIP Policy and Programming. The success in the Public Investment Policy and Programming of Azerbaijan depends on the level of continuity and determination on the part of GOAZ to improve efficiency of its policy and procedures in capital investments:

1. The newly appointed leadership in the Ministry of Economic Development and the Ministry of Finance needs to strengthen prospects for the improved economic coordination of central ministries and for long- and medium-term macroeconomic framework development. For this purpose it is critical to establish an economic sub-cabinet – the High Policy and Planning Council (as suggested by the PIP Project, or a differently structured agency as suggested by the World Bank yet with similar economic policy management functions) – to set macroeconomic goals, national development objectives, and sector and administrative unit targets and resource envelopes. There needs to be one common set of national priorities and one set of macroeconomic targets and assumptions, which will become a common denominator for the development of the State Program for Poverty Reduction and Sustainable Development, the State Budget, the Medium-Term Expenditure Framework, and the Public Investment Program.

¹ Summary of the Phase I Study Tour to Ankara, Turkey (July-August 2006): Under the auspices of the USAID-sponsored START Participant Training Program the PIP Project helped to organize a study tour on the topics of the Public Investment Policy and Program formulation for 15 senior level GOAZ executives. Poland, Slovakia, Malaysia, and Turkey were considered as countries that demonstrated a sustained economic growth with effective and efficient use of state budget capital resources for infrastructure and social sector development. In the end, Turkey was selected for the study tour visit. The decision was based on various considerations: a) Turkey has built up a profound experience in development planning, having just completed the implementation of its 8th Five-Year Development Plan, 40 Annual Programs, and 40 annual Public Investment Programs, b) the Government of Turkey was adopting from the year 2006 a Medium-Term (3-year) Program as well as a Medium-Term Financial Plan, in line with the WB and EU recommendations to improve linkages between planning and budgeting, and c) Turkish Economic Ministries/Agencies' web-sites were far better compared to other countries. The Tour took place in July-August 2006. The PIP Project staff believes that this Study Tour offered a great opportunity to the participating Azerbaijani officials to make valuable observations relevant to their work and to establish contacts with their Turkish counterparts for cooperation to support Azerbaijan's efforts to reform her budgeting and investment programming systems. Following the study tour the participants informed their respective Ministers of the outcomes and actions required to significantly improve coordination between economic ministries in macroeconomic planning and, based on this, financial programming for capital program. The PIP Project and WLI were congratulated and praised and requested a support in organizing a "more technical" visit for the PIP practitioners.

2. The GOAZ needs to fit its public investment programming into a clear investment policy framework. Once national development policies and priorities are formulated in the long- and medium-term, the sectoral ministries can then formulate their technical development agendas with the guidance of national priorities and sectoral objectives. Under such guidance, the GOAZ agencies will deliver public goods or services, which are the only reasons for the existence of the agencies.

3. The Public Investment Program of the GOAZ needs to flow from the country's harmonized macroeconomic objectives and sector development plans. The PIP needs to be rationalized by including all types of public capital expenditures into the PIP whether they are funded from the budget or by donor loans and grants, and whether undertaken by budget organizations or by extra-budgetary funds. Of the total capital spending included in the State Budget, less than a half is included in the PIP. Externally funded public capital spending, while not in the Budget, is included in the PIP. There is a part of total public capital spending which is in neither the Budget nor the PIP. Once such fragmentation is replaced by a coherent system of PIPP management, Azerbaijan will enjoy greater economic and social benefits.

To address the aforementioned objectives DAI/PIPP suggests the following GOAZ representation:

2 officials from the Cabinet of Ministers;

4 officials from the Ministry of Economic Development and/or Line ministries;

2 officials from the Ministry of Finance, and;

2 officials from the National Bank of Azerbaijan.

The participants will be recommended by the PIP Project in cooperation with the counterpart agencies. Care will be taken to also include the successful graduates from the previous PIP-managed formal trainings in integrated project analysis.

Behavioral Objectives:

By the end of the training what is that you want the participants to be able to do? That is, what do you want the participants to practice during the training?

PIPP Project suggests the following PIPP-related topics to be covered during the visit:

1. The legislative and institutional set-up for long-term national and sector development planning and investment policy formulation;
2. Linkages between medium-term macroeconomic and sectoral development framework;
3. Institutional arrangements in support for public investment programming, legislative and normative base in support for public investment programming;
4. PIP formulation, prioritization, substantiation, and approval for financing, and its integration with development planning, and budgeting;
5. Project preparation, appraisal and financing;
6. Techniques of project analysis: financial, economic, social, technical, and environmental analysis;
7. Participatory process in PIPP preparation, approval and implementation;
8. Lessons learned from the PIPP implementation in the host country;
9. Action plan in adopting the necessary procedures for PIPP in Azerbaijan;

10. Define institutional and legislative framework in support for the PIP reform in Azerbaijan.

Expected Results:

What are the specific results are expected from the training?

The core objective of the training is to provide to the top level GOAz officials with experience of a country in the region, where the public investment program is being successfully implemented. It is expected that the participants of the Study Tour will, as a minimum be able to:

1. Understand legislative and institutional set-up for long-term national and sector development planning and investment policy formulation and ways to translate new concepts to the Azerbaijan context;
2. Realize that strong linkages need to be established between medium-term macroeconomic and sectoral development framework, and pursue with this axiom in Azerbaijan;
3. Learn of the Turkey-specific Public Investment Policy formulation, project prioritization, substantiation, and approval for financing, and its integration with development planning, and budgeting;
4. Gain new skills in areas of programs and projects' preparation, appraisal and financing. Realize that this is a sequential and complex process requiring a certain technical experience in project management;
5. Understand a spectrum of tasks and techniques for project appraisal from economic, financial, technical, social and other angles;
6. Realize the importance of a participatory process in PIPP preparation, approval and implementation; and
7. Draft a Road Map for public investment policy and programs formulation and execution in Azerbaijan employing the best practices and documentation adopted in Turkey.

Obstacles:

List any obstacles to developing or carrying out the proposed training event, i.e., timing, staff availability, legislative/administrative requirements)

None. The PIP Project and WLI have established excellent work relationships with the Turkish International Cooperation and Development Administration Agency (TICA) to help WLI with logistic matters and program setup. The TICA management was extremely supportive and promised to do their utmost for the Tour's success. The PIP Project believed that the technical traineeship will become a logic continuation of the efforts in helping the GOAZ counterparts to achieve effective and efficient Public Investment Policy and Program implementation.

Comments/Notes:

The proposed technical traineeship is the important continuation of the phase I study tour accomplished in July-August 2006. It was valued by the top-level GOAZ participants as extremely beneficial professionally. This time practitioners will learn details and documentation as well as management patterns critically needed in strengthening GOAZ Public Investment Program. The traineeship is an extremely effective teaching method as allows grasping complex topics in details, allowing sufficient time, and consult nuances with the colleagues from the fraternity government. This will also pave ways to establishing sustainable contacts and future consultations between the two governments. In future these contacts will become a standing practice and norm but this time USAID may pay the way toward this process.

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To Be Completed by USAID SO Team Leader and Participant Training Coordinator:

Approved: _____

Signature: _____
SO Team Leader

Approved: _____

Signature: _____
Participant Training Coordinator

PUBLIC INVESTMENT POLICY PROJECT

RECOMMENDATIONS FOR THE FOLLOW-UP TRAINING PROGRAM IN 2007

The Public Investment Policy Project (PIPP) conducted its first and second rounds of training on the integrated project analysis during late February through early April in 2006. As envisaged in the PIPP Work Plan (WP) and Training Program (TP), each round consisted of two parts, with the first part (2 work days) for managers focusing exclusively on the integration of the medium-term Public Investment Program with other national and sectoral development programs as well as with the medium-term State Budget, and the second part (15 work days) for technical staff focusing essentially on the economic analysis of public projects. The first day of training for the technical staff also provided an overview of plan-budget-investment program integration. The participants for each round included about 20 managers and 20 technical staff (about 80 in total for the two rounds) coming from the Cabinet Office, MOED, MOF, and 5 line ministries. The first part of each round and the first day of the second parts were based on the relevant technical notes of PIPP and delivered by the PIPP COP and Public Finance expert. The rest of the second rounds were based on the ADB's Public Investment Project Manual and delivered by an international STTA (Mr. Richard Anson) with the help of four PIPP sector experts and 3 CER trainers. The PIPP Quarterly Progress Report for Q2/2006 provided full briefing on these two rounds of multi-week training, which had been rated highly successful in general by most participants.

The PIPP TP had planned repeating the above program several times through the end of the project life to cover about 300 government officials from all key central and line ministries involved in the preparation of the PIP. In this context, the 3rd and 4th rounds of the integrated project analysis training took place during November 14-30 and December 4-19, 2006. The new course program and the participants' lists were sent to DAI/HQ, USAID/Baku Office, and MOED shortly after the completion of the 4th round. In this briefing note, I present: (i) the main improvements in the course program and content; and (ii) the main lessons I have drawn and my recommendations based on them for further improvements in the conduct of such training activities in 2007.

IMPROVEMENTS IN THE COURSE PROGRAM AND CONTENT

- 1. Shortening the Course Duration:** The 1st and 2nd rounds of the same course were each 17 work days, which was considered by both the participants and the PIPP staff too long to keep the participants' attention and attendance. Hence, the 3rd&4th rounds were reduced to 12 work days without sacrificing from the course content and effectiveness. This was possible through some streamlining of the earlier course content as explained below and also by employing a Turkish speaking trainer who could dispense with an interpreter and interpretation time.
- 2. Streamlining the Course Content:** As noted above, the former two rounds were rated highly successful by most participants, who nonetheless felt that the course content of the second part (for the technical experts) had too many confusing repetitions and cross (back-and-forth) references. In order to address

this shortcoming, first, the earlier slides of the project analysis were re-arranged into the sequential order of the draft PIPP manual. Second, while the earlier course content started with and mainly focused on the economic analysis of public sector projects, the new course content started with the financial analysis of a commercial project and then moved to the introduction of the factors that differ in the case of public sector projects, particularly for non-commercial ones.

3. **Improving the Course Program** in terms of its relevance to the PIP process: While the earlier rounds focused more on the economic analysis of projects with substantial emphasis on conceptual issues, the 3rd&4th rounds presented a more balanced integration of project analysis with the PIP process. The new program started with the importance of the PIP; continued first with an emphasis on the preparation of the PIP Call Circular by MOED and on the line ministries' satisfactory response to it, and then with the preparation of a project through various stages; and finally ending with an overview of main project prioritization and selection criteria, including both policy-based and cost-based methods.
4. **Improving the Course Content** in terms of its relevance to Azerbaijan. The earlier rounds were careful to make as much use of Azerbaijani examples as possible. This essentially took place as presenting examples and exercises after the conceptual presentations on the main issues. The 3rd and particularly the 4th rounds succeeded to improve on the earlier rounds in this respect by presenting a major part of the program by using two Azerbaijan projects (an education and an energy project). This was made possible partly by the adoption of a new program as noted above and partly by the deliberate decision of PIPP.
5. **Improving the Effectiveness of the Course Delivery:** Again, the delivery of the earlier rounds was rated very successful, thanks to the international trainer's skillful conduct of it. We, nevertheless, succeeded to further improve in this respect in the 3rd and particularly 4th rounds over the earlier ones. This was essentially possible as a result of the following factors:
 - a. In the first part (for the managers) of each round, I used the participants from MOED and MOF almost as "Co-Trainers", who were instrumental in drawing the otherwise reticent representatives of line ministries into interactive discussions;
 - b. In the second parts (the technical staff), I was first establishing one-to-one dialogue with a few relatively more forthcoming participants and then blending the subject with some policy issues from both Azerbaijan and Turkey, including my own experiences in the WB or with other donors' projects, to create wider interest and participation.
 - c. The participants in the 3rd & 4th rounds were given less conceptual presentation, and more hands-on practical approach, than those in the earlier rounds.
6. **Improving the Share/Participation of the CER Trainers in the Course Delivery:** In the earlier rounds, the potential CER trainers assisted, together with the PIPP project staff, the international trainer particularly with the exercises. This was also maintained in the 3rd&4th rounds. In addition, I was frequently interrupting my discourse and inviting the CER trainers to "lecture" for 5 to 10 minutes on specific aspects, and also asked each to lead a few classes, which they have all done successfully.

LESSONS TO BE DRAWN AND RECOMMENDATIONS

The USAID has conceived the PIP Project to help GOAZ build up its institutional and technical capacity for efficient investment of its rapidly growing oil revenues. As explained in its WP, the PIP Project was designed to achieve its objective through technical assistance to GOAZ on three fronts simultaneously: (i) macro and sectoral development planning (framework); (ii) the formulation of public investment policy and programming; and (iii) identifying the projects content of the PIP. The PIPP training program in general, and the multi-week training on the integrated project analysis in particular, is aimed at supporting PIPP's work on the above-mentioned three areas. Accordingly, I would like to give below my observations on the relevance and usefulness of the 3rd and 4th rounds of training for the stated objectives of the PIPP.

1. At present, GOAZ does not have any distinct formulation of public investment policy and program as part of a macro and sectoral development framework, which is also lacking. Hence, the first part (for managers) of each round training on the planning and investment programming was rightly focused on addressing this shortcoming and well received by the participants.
2. The attendance was full at the 3rd round but considerably smaller than planned at the 4th round. This should not, however, be interpreted that this particular course program has already saturated its "clientele." The adoption of the new MOED Charter (approved by the President on 1/2/07) and that of the draft PIPP Manual hopefully soon will particularly enhance the need for the present course program for those line ministries/agencies that have not been covered so far as well as for the Cabinet Office, whose representation was weak, and the President's office that has stayed out so far.
3. The active participation of the MOF representative at the 3rd round and the MOED representative at the 4th round proved to be invaluable in enhancing the effectiveness of the course. Hence, the future programs should deliberately arrange for strong participation from MOF and MOED.
4. The program for the technical staff on a truly "integrated" project analysis incorporating "macro/sector planning - investment programming - project development and prioritization" was also well received and appreciated by the participants for putting their project tasks/work in an appropriate and meaningful perspective.
5. The technical and analytical skills of the participants in all the four rounds of training so far were rather limited for an even modestly advanced level of training in the above-mentioned program. This should not, however, cause much concern because what is crucial for having a sound public investment policy and program is not so much having adequate number of skilled project staff for advanced cost-benefit analysis as the establishment and implementation of the right procedures and methods for integrated analysis of project development and selection. Once the latter is in place, the shortfalls in the former can always be met by employing foreign and local consultants, particularly considering that GOAZ no longer has budget constraints for that purpose.
6. The 1st and 2nd rounds of PIPP training in March 2006 were heralded as a great success by all concerned. As the COP, however, I was both cherishing the success and also contemplating further improvements in the effectiveness of the course program and its delivery. I therefore decided to take on the responsibility for the 3rd and 4th rounds in Nov-Dec, 2006 and introduced the above-mentioned improvements, which I hope will be maintained in future rounds of this course.

One of those improvements, however, fell much shorter of what I hoped for: The course program and its delivery should entirely be based on two recent Azerbaijan projects, one in the social sector and the other in infrastructure, because the participants are lost when they encounter abstract and conceptual discourses. I had not had time to recast the existing training materials myself into the new format I wanted, and my efforts to get this done by my colleagues were not successful because they could not fully visualize what were required. This should now be undertaken by the new trainer for the 5th round of the course.

7. One of the purposes of this course is to create an adequate capacity at the CER to eventually continue delivering this program on its own to a wider audience from all line ministries/agencies. As noted above, PIPP made good progress towards this objective with the 3rd and 4th rounds of training in Nov-Dec, 2006. Of the three CER trainers, Elvin will make an excellent trainer for this course if he is coached well. Bakhish is already well equipped with the basics of project analysis and development economics, but need to better focus and limit his presentation to the task discussed not to lose his audience. Yashar was successful in blending conceptual presentation with references to practical issues, though he also needs to distinctly structure his discourse and make it less of a lecture and more of a "questions and answers" format.
8. Finally, the three PIPP local experts, together with the three CER trainers, were very helpful in facilitating the class exercises by assisting and integrating with the participants. This function in the future should, however, be undertaken completely by the CER trainers because it will be too costly for the PIPP to devote its three staff full-time to this purpose (except in the case of a new PIPP staff that will benefit from it as a learner). Of the PIPP local staff, Ramil has distinguished himself as having great potential as a good trainer. Despite his joining the project only a short while ago, Ramil has acquired a full grasp of the PIPP's objectives, strategies, and content.



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Attachment 9.

PUBLIC INVESTMENT POLICY PROJECT

Work Plan: July 2006 – June 2007

OCTOBER 2006

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Work Plan: July 2006 – June 2007

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BTC	Baku-Tbilisi-Ceyhan oil pipeline
BSL	Budget Systems Law
CER	Center for Economic Reform, Ministry of Economic Development
EPFD	Economic Policy and Forecasting Department (MOED)
DAI	Development Alternatives, Inc.
EU	European Union
GDP	Gross Domestic Product
GOAZ	Government of Azerbaijan
IFI	International Financial Institution
IMF	International Monetary Fund
JCC	Joint Call Circular
LM	Line Ministry
MOED	Ministry of Economic Development
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
MTMF	Medium-Term Macroeconomic Framework
NBA	National Bank of Azerbaijan
NGO	Nongovernmental Organization
PIP	Public Investment Program (of GOAZ)
PIPE	Public Investment Policy and Efficiency (Project)
PIPP	Public Investment Policy and Program
PIP Project	Public Investment Policy Project (previously PIPE)
PRSP	Poverty Reduction Strategy Paper (Program)
RDP	Regional Development Program (former title of the SPSEDR)
REH	Raion Executive Head
SDP	Sector Development Plan
SOFAZ	State Oil Fund of Azerbaijan
SPSEDR	State Program for Social-Economic Development of Regions
SPPRS	State Program for Poverty Reduction and Sustainable Development
TA	Technical Assistance
TIMS	Treasury Information Management System
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
WB	World Bank

I. INTRODUCTION

Responding to a request from the Government of the Azerbaijan Republic (GOAZ), the USAID signed a contract with Development Alternatives, Inc. (DAI) on March 18, 2005 to implement the Technical Assistance project of "Public Investment Policy and Efficiency," the *PIPE Project*¹. The primary objective of the Project was 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, and monitoring and evaluation. The Ministry of Economic Development is the main counterpart of the PIP Project. The PIP Project also works with the Ministry of Finance, numerous line ministries, and local authorities. In limited capacity, the PIP Project includes work with civil society organization to promote the participatory aspects of public investment policy and investment project management. The original set of tasks was scheduled through the end of 2007.

The PIP Project was organized in four components, three of which corresponding to the three areas above where GOAZ needs capacity development, and a fourth component as a substantial Training Program to support the other components. This Second Year Work Plan presents the detailed tasks under each component scheduled for the second year period (July 2006-June 2007). This Work Plan discusses the progress made with respect to the First Year Work Plan and sets out how the next stages of implementation are expected to advance the Project in the coming year. In general, many of the tasks initiated in Year 1 are continued or repeated during the remaining period of the project.

The following sections on the background and motivations of the PIP Project as well as the public investment issues in Azerbaijan were elaborated on in the original Work Plan. These sections are included for the sake of completeness.

¹ During the first year, the PIPE Project name was changed to Public Investment Policy Project (PIP Project) to reflect better the project's primary motivation of policy and institutional capacity enhancement.

II. BACKGROUND AND MOTIVATION

At the turn of the 20th century, Azerbaijan was the world's largest exporter of oil. By the time Azerbaijan became an independent republic in 1992, however, it was an insignificant oil producer. This has, soon after, begun changing under the impetus of Production Sharing Agreements with international oil companies, and Azerbaijan's oil economy started to expand vigorously. Azerbaijan has succeeded, since, in establishing sizable oil and gas extraction capacity and realized the Baku-Tbilisi-Ceyhan pipeline to export its oil to international markets. The current plan for oil production is expected to peak around 2011, plateau for a few years, and then decline in 2024 to about one-quarter of the peak level – all assuming no new reserves are discovered. In the medium-term period, (2006-2011), Azerbaijan is expected to receive oil and gas export earnings equal in amount to over thirteen times the 2005 non-oil GDP of Azerbaijan.² In the medium-term, these earnings have the potential to alleviate the difficult challenges that face Azerbaijan Republic in its economic transition and its economic development path. These challenges include, continuing high levels of poverty, inadequate physical infrastructure, inadequate investments in social sectors, underdeveloped financial sector, and weak corporate governance of SOEs. But the rapid growth of the Azeri economy in the near term will allow the Government to increase substantially its annual spending on current services and transfers, and on public investments. As envisioned in the draft *State Program on Poverty Reduction and Economic Development, 2006-2015* and the *Regional Development Program, 2004-08*, public investment spending will promote fast growth of the non-oil economy, increased social security, and more balanced regional development.³ In implementing these ambitious programs to address its difficult transitional/developmental issues, the decision-makers of the Government have to find, in the medium-term, the correct balance between increasing the productive public sector spending and maintaining macroeconomic stability and developing the non-oil sectors of the economy.

Maintaining the macroeconomic stability in the presence of large oil revenue influx by curbing the inflation rate will require well-informed policy-making and disciplined policy implementation. Thus far, the Government of Azerbaijan (GOAZ) has done a satisfactory job in managing the initial influx of revenues. However, long-term management of the rapidly rising oil revenues through 2012 and its later decline will be significantly more challenging. The challenge stems from the same factors over the last four decades that forced other developing oil-rich countries to grow, on average, at a significantly slower rate than other developing economies. Some oil-rich developing countries have also experienced much greater economic volatility. There are, essentially, three reasons for this phenomenon:

- (a) Booming revenues often lead to investment in ill-conceived welfare schemes and “pork-barrel” projects with accompanying corruption;
- (b) The volatility of world oil prices leads to destabilizing swings in the balance of payments, fiscal revenues and deficits; and

² Oil revenues calculations are based on price of oil at USD50 per barrel.

³ The acronym SPPRED has recently become SPPRS (State Program for Poverty Reduction and Sustainable Development) and RDP (Regional Development Program) has become SPSEDR (State Program for Socio-Economic Development of Regions).

(c) Oil-rich economies are susceptible to “Dutch Disease,” under which increased foreign exchange inflows from oil sales cause the value of the national currency to appreciate and make the non-oil sectors of the economy less competitive.⁴

Therefore, the GOAZ has the difficult task of maintaining the oil and gas windfalls as national asset and keeping the windfalls from becoming national liability. The oil and gas windfall could be of immense benefit to Azerbaijan if it is combined with careful macroeconomic and fiscal management and highly disciplined implementation of economic diversification and poverty reduction strategy. The Government has to focus on technical and institutional solutions to prioritize economic development strategies for poverty reduction and improvement of infrastructure while securing macroeconomic stability and avoiding the effects of Dutch Disease. As an initial prophylactic to maintain macroeconomic stability, the GOAZ started a Long-Term Oil Revenue Management Strategy.⁵ The strategy counsels to transfer a limited amount of oil revenues annually from the State Oil Fund of Azerbaijan (SOFAZ) to the Consolidated Budget and investing all other current oil revenues by SOFAZ in foreign assets to meet future needs of the country when oil production declines.

At the same time, to manage the planned rapid expansion of public investment spending over the next ten years, the Government needs to strengthen greatly its institutional and technical capacity in the areas of long-term planning, budget formulation, and project development and management. This involves, first, improved capacity at the Ministry of Finance and Ministry of Economic Development for preparing the annual Consolidated Budget, the Medium-Term Expenditure Framework (MTEF), and the Public Investment Program (PIP) within the standards of basic public expenditure management objectives.⁶ Moreover, each line Ministry and other government organizations as well as municipalities must develop their capacity to prepare and prioritize expenditure projects in accordance with modern standards of economic feasibility. The practice of these standards need to be carried out within a rationalized development and policy planning framework at both the macro (government-wide) and sectoral (ministerial) levels.

⁴ Classic Dutch Disease is unbalanced economic growth among the oil sector, the non-oil traded goods sector, and the expanding non-traded goods sector. If the inflows of higher export earnings and foreign capital cause money supply to increase then the real effective exchange rate rises. This forces the domestic tradable goods sector to be less competitive and forces resource allocation to domestic non-tradable goods sector (in extreme case leading to deindustrialization).

⁵ LTORMS, Presidential Decree #128, September 27, 2004.

⁶ These objectives are: a) maintaining aggregate fiscal discipline, b) allocating resources according to development priorities, and c) promoting efficient delivery of services.

III. PUBLIC INVESTMENTS ISSUES IN AZERBAIJAN

Broadly speaking, the primary reason for the conception of the USAID's PIP Project was to help with institutional and skills capacity of the Government of Azerbaijan in order for it to manage better the expected large expenditures on public investment projects. The PIP Project's success in this direction has been to begin installing necessary infrastructure (institutional, procedural, and skill) in order to increase the effectiveness and efficiency of Azerbaijan's public investments in the coming years. Since the decision to initiate the Project was made over two years ago, the need to dampen the negative economic outcomes from increased spending on public investments the revenues from oil exports has gained more urgency. There are already indications of appreciating real effective exchange rate and, in the non-oil sector, declining labor productivity (read *loss of competitiveness*). Hence, the primary reason for the conception of the Project remains very valid today.

In this endeavor, the PIP Project is looking into only the improvement of public investment policy and programming. The PIP Project is not involved in many other inefficiency issues in the project implementation and financial management areas, which have much broader scope and coverage.⁷ At the same time, in the current public expenditure management environment, solely improving the technical procedures of embarking on individual investment projects do not address the core issue of public investments. Concerns about the extent of financing of public investments from the budget overlooks what consideration the GOAZ should have with respect to the extent of State participation in the Azerbaijan economy and the impact of public expenditures on the stability or the development direction of the economy of Azerbaijan.

The success of public investment policy formulation and investment programming depends on correct prioritization of policy objectives, strategies and investment projects within the bounds of total resource availability. In Azerbaijan, this involves:

- Identifying the main objectives and strategies of the public investment policy over the medium-term in relation to the country's overall political, social, and economic objectives as articulated in SPPRS, SPSEDR and other key official documents.
- Estimating the annual resource envelope of the country over the medium-term period.
- Within the priorities of national political, social, and economic objectives, allocating total national spending between consumption and investment categories and then allocating each category between public and private sectors.
- Allocating total public capital spending among the sectors in line with national objectives and strategies for sectoral development as reflected in SPPRS, SPSEDR and other key government documents.
- Allocating total sector estimate for public capital spending to priority investment programs in conformity with sector development objectives, strategies and targets.⁸

⁷ Public Expenditure and Financial Accountability (PEFA) initiative of the World Bank tries to address many of these broader issues.

⁸ Ideally, these are elaborated in Sector Development Plans (SDP).

- Satisfying the consistency of all the above decisions by checking:
 - i. Internal-consistency of all the key macroeconomic balances, including the savings-investment gap, the overall resource gap, the foreign exchange gap, the fiscal deficit, the monetary balance, and the employment/skill balance.
 - ii. Internal-consistency of sectoral development and public investment targets.
 - iii. The public capital spending estimates of SPPRSD/SPSEDR (and their Annual Performance Reviews) against that of the MTEF/Consolidated Budget/Annual State Budget.

This broad systemization can be taken as the basis of the formulation of sound planning (SPPRSD, SPSEDR, SDP) and budgeting (MTBF, Consolidated Budget, and the State Budget) documents. Indeed, the GOAZ has been adopting over the past decade a number of new instruments and practices (e.g. MTMF, MTEF, and Sector Development Reports) along the lines noted above, but mostly on an ad hoc basis by some agencies but not by others and without an encompassing framework. As a result, there is a great degree of fragmentation of planning and budgeting instruments without effective linkages among them. Public investment policy formulation, which could and should provide the required linkage, is not playing this role because it is also fragmented among various agencies and instruments. Some public sector capital spending is formulated in the form of investment projects in the PIP and while other capital expenditures are formulated as purchases of fixed assets and durable goods in the State Budget. The PIP is endorsed by the MOED and other capital expenditures by the MOF. However, MOF may exclude or replace any PIP project approved by the MOED. Moreover, the line ministries can submit their sector investment projects for up to 10 years directly to the Cabinet of Ministers and even to the President's Office and receive approval, whereby the MOED and MOF are excluded or marginalized to making only supportive comments.

The PIP Project activities are assisting the GOAZ to develop and adopt proper institutional and policy framework as well as appropriate procedures for designing and implementing a sound PIP. The changes that are targeted by the PIP Project activities improves planning of public investment policy by better alignment of development planning and government budgeting in Azerbaijan, by better prioritization of public investments projects, and by preparing better investment projects. The PIP Project Work Plan was designed under four components:

1. **Component A:** Determine long-term national and sector development objectives, strategies and investment policies at both macro and sector level for medium-term planning and budgeting purposes.
2. **Component B:** Advance the formulation of public sector investment/capital budget within a MTEF as a connection between development planning (SPPRSD/SPSEDR/SDP) and the Consolidated State Budget.
3. **Component C:** Strengthen the Government's institutional and technical capacity in budget organizations to manage successfully the public investment project cycle (comprising identification, appraisal, preparation, prioritization, implementation, and monitoring and evaluation).

4. Component D: Support the above activities by extensive training program designed and delivered jointly with the most reputable training institutions both from the US and Azerbaijan.

Each component is implemented at the appropriate setting of central Government agencies (the Cabinet of Ministers, MOED and MOF), line ministries, local executive authorities and municipalities, and non-government organizations. The intent of the PIP Project is the development or improvement of institutional, organizational, and technical capacities and the procedures and processes underlying sound development planning and budgeting.

IV. THE FIRST YEAR IN REVIEW AND THE YEAR AHEAD

The PIP Project has pushed forward the tasks of its WP on many fronts during the initializing phases of the Project. The tasks included in the Project's formulation and their implementation schedule in the original WP, have been subject to reassessments under developing circumstances and gained hindsight. One year of work and reassessments, i.e. diagnostics, training and other interactions with GOAZ authorities, and the progress made so far corroborate the approach in accentuating and sequencing of WP tasks as they were conceived. During the first year, within the context of developing circumstances, the Project has:

1. set out most of the key modules of the formulation of public investment policy and program and disseminated them at technical, medium- and senior-management levels of the central agencies and five select LMs.
2. supported the PIPP formulation modules by an effective training program, comprising continuous on-the-job training, seminars, workshops, a study tour as well as a technical course abroad, and two rounds of formal multi-week training to be repeated twice in November-December 2006 and four times in 2007.
3. put the results of key modules and supporting training materials into a draft PIPP Manual for GOAZ's review and approval.
4. carried out all the above tasks with full support and cooperation of its official counterparts.
5. laid institutional conditions for public investments policy and programming in Azerbaijan to emerge as efficient resource user once the PIPP Manual is adopted by GOAZ making it obligatory and effective in the preparation of the PIP.
6. made adjustments to timing of some tasks because they required pre-requisite stages to take hold.

During the first year, the PIP Project worked with five LMs in addition to working with MOED and MOF.⁹ The staff of these ministries participated in seminars, presentations, training sessions and reviews of leading issues of investment programming and project preparation. In the second year, the PIP Project is working with four additional LMs and a local level

⁹ The five LMs are: Ministry of Education, Ministry of Transportation, Ministry of Ecology and Natural resources, Ministry of Culture and Tourism, Ministry of Industry and Energy.

agency as well as pursuing follow-up work with staff from the original LMs.¹⁰ The tasks for the remaining period of the Project require that the PIP Project focus its work on: (i) the consolidation and completion, if needed, of its work done so far, (ii) expansion of the coverage of the project to new LMs, and (iii) hands-on work and on-the-job training with the central ministries and new LM staff.

1. Key modules for PIPP

a) Coherence and guidance of public investment policy and programming

During last year, the PIP Project has begun constructing the enabling environment to make public investment projects effective by basing the projects on an informed public investment policy. Currently, main macroeconomic sectors of the Azerbaijani economy function in a way that does not fully account for the effects one sector has on the other sectors and on the economy as a whole. The PIP Project has brought the ideas of using a MTMF and of establishing a HPPC-type institution to a recognition level in the Central Ministries, NBA and LMs.¹¹ The PIP Project held a very successful High-Level Workshop, which persuaded the participants from the GOAZ central economic agencies, about the role and the mechanism to integrate policy, planning, and budgeting. Prior to the Workshop the PIP Project had given numerous presentations and held meetings with MOED, MOF, and LMs to build support for the recommended institutional adjustments. The MOED, the MOF and the NBA have since become advocates of these improvements. The acceptance of a high-level policy-making function for coherent economic policy decisions is vital for improving the effectiveness of Azerbaijan's public investments. The leadership of the GOAZ understands the need for taking steps towards macroeconomic management and fiscal discipline. The Azerbaijan Government is now at a point where the top-leadership must make a decision to go forward with what MOED, MOF, NBA and LMs acknowledge as a necessary governance modification.

The macroeconomic agenda, which the PIP Project is specifically interested in, is determined by containing fiscal expansion and improving the quality of fiscal spending. Containing fiscal expansion is prudent policy for macroeconomic stability. Improving the quality of fiscal spending influences the direction of economic diversification and competitiveness. However, an investment policy without the internal-consistency of sectors of the economy may be contradictory. Hence, the PIP Project has been promoting a home-produced MTMF, which considers alternative macroeconomic policies and their respective merits and consequences. The central economic agencies of GOAZ should collaboratively formulate the MTMF. Even the exercise of bringing to fruition a MTMF is highly valuable in capacity building and accountability enhancement. The PIP Project has also promoted a HPPC-type institution to use the MTMF to enforce the quantity and quality of all public

¹⁰ New LMs/agencies are: Ministry of Health, Ministry of Communication and Information Technologies, Ministry of Agriculture, Corporation for Irrigation and Water Economy, and local MOED office or/and rayon executive office. The local level agency has not been identified yet.

¹¹ High Policy Planning Council. The HPPC idea promotes an institutional capacity in an "Inner Cabinet" comprising of the economic ministries/agencies to review, evaluate and screen the decisions and documents relating to major economic and social programs before submitting them to the Cabinet and the President for approval. Technical work for the HPPC essentially involves development planning (i.e., developing a macroeconomic and sectoral framework; identifying appropriate development targets and economic policies; and checking their macroeconomic internal-consistency). HPPC would be chaired by the President or the PM. Members would include State Economic Adviser and leaders of MOED, MOF, NBA and other organizations depending on the particular agenda.

spending. The public investment expenditures function within that MTMF, which considers the overall fiscal envelope, monetary and exchange rate implications, and manageable economic growth. Without a coherent economic policy, a public investment policy is not a sufficient condition to make the desired impacts on public investments. The PIP process, including the technical details of investment project preparation, is only the instrument to realize GOAZ investment policy embedded in the MTMF.

The PIP Project has been giving content to advance PIPP formulation by assessing fundamental policy building blocks. Within the priorities of national political, social, and economic objectives, allocating total national spending between consumption and investment categories and then allocating each category between public and private sectors are basic to economic management. Allocating total public capital spending among the sectors in line with national objectives and strategies for sectoral development is reflected in SPPRSD, SPSEDR and other key government documents. In such allocation decision, the reliance on MTMF is indispensable.

b) Sector Development Plans

The PIP Project has been instructing the select LMs to formulate SDPs in the best practice standards. With varying degrees of success, the PIP Project confers with LM staff and motivates their understanding and work in their sector development. The PIP Project has produced a Technical Note on Preparation of Sector Strategic Development Plan. The Note was based on extensive diagnostics effort at LMs by the PIP Project. The Note addressed the importance of linking the guidance from national development objectives with the budgeting of expenditure programs. The crucial role of SDPs in the integration of top-down planning with bottom-up planning was specified. PIP Project presented and discussed the Note with the selected LMs. The LMs staff agreed with the format and the needed role of SDPs. However, they also imparted to the PIP Project the fact that the national leadership must make national development objectives explicit with realistic considerations of resource limits and better defined time frames.

During the second year, the PIP Project is working closely the four new LMs in methods of updating their SDPs. Within the broad SDP formulation framework, the Project will help LMs in annualizing and managing investment projects in the medium-term, in responding to PIP 2008-2011 Call Circular, preparing sector PIP for the period and other technical issues. Some of these issues include the prioritization methodologies and estimating recurrent costs of investment projects as they may affect the future budgets.

The PIP Project looks forward to the adoption of the PIPP Manual procedures during the current year to introduce procedures. These would give institutional responsibilities and constraints in the PIPP formulation for the SDPs to find their proper functionality. The Sector Development Plans cannot be formulated in a coherent manner without guidance from national development objectives and an overall macroeconomic framework. Most importantly, without explicit and binding annual budget expenditure limits, the LMs cannot use concretely the SDPs for budgeting purposes. The expenditure limits can be set in the formulation of a MTMF. Currently, the SDPs rely on PRSP-type objectives where there are no direct links to resources and sustainable budgets. The Cabinet of Ministers approves the SDPs, which formally moves sector investment projects to funding stage. In the meantime, investment projects, which are in the ongoing PIP, receive funding with or without approved SDPs. In this situation, the co-operation of LMs with the PIP Project on SDP formulation and implementation will remain inconsequential without institutional markers to guide the process. Therefore, training exclusively the staff in LMs in project preparation and trying to link these skills with disparate sector plans will not be sustainable in an institutional

environment which will not use the project preparation capacity, does not have binding national objectives, and does not have a balanced economic development policy.

c) De-fragmentation of investment and capital expenditures

The PIP Project made some headway in focusing the importance of capital expenditure de-fragmentation. There is, now, consensus for the need to consolidated perspective on investment expenditures. The public capital expenditures need to be rationalized by being considered in their totality. It does not matter whether public investments are funded from the budget or by donor loans and grants, and whether undertaken by budget organizations or by extra-budgetary funds. Of the total public capital spending (excluding that of fully or partly owned state enterprises), only about 40 percent is shown in the State Budget (2005) and the rest, mostly externally funded, is not. Of the total capital spending included in the State Budget, less than a half is the PIP. The other part is capital expenditures that budget organizations request. Externally funded public capital spending, while not in the Budget, is included in the PIP. There is a part of total public capital spending which is in neither the Budget nor the PIP. Additionally, the recurrent costs that the capital investments would incur in the future budgets are not calculated in a realistic method. Hence, fixing such fragmentation has been one of the first targets to address the coherency of PIPP management.

The next steps will look into consideration to create a database for PIP projects and linking these with the TIMS. The recurrent costs implications have also been highlighted as an important stage of project preparation in PIP Project Training Programs. The underlying institutional linkage between MOED and MOF is another area that the PIP Project is and will be fostering.

d) Building MOED and LM capacity in PIP management

One of the concrete outcomes of training, workshops, and on-the-job training is the interaction and common understanding among the staff that are responsible for investment programming at the MOED and in the LMs. Gaining technical skills and common understanding is increasing 'grassroots' consensus inside the GOAZ about proper public investment policies and investment expenditures. The most effective platform for this 'grassroots' interaction has been the new Call Circular for *PIP 2007-10*. Its comprehensive design, the quick MOED approval, and immediate adoption are very promising beginnings. The Call Circular is already a part of the official PIP process. It has left a big footprint in the budgeting work of the LMs and the MOF. The MOF has studied the PIP CC and is considering aligning the budget Call Circular with it. The PIP Project will build on lessons learned from the first year PIP CC use and deepen the practice by working closely with MOED, MOF and LMs. The intended full-use and institutionalization of a common Call Circular in the entire planning, policy and budgeting process will occur when the LMs, the MOED and the MOF are instructed to do so effectively. The instructions will have to come from a HPPC-type policy-making institution based on quantitative economic framework. The PIPP Manual implementation will guide the specific procedures.

The PIP Project worked with MOED EPFD and PIP Division in designing a format for robust description and analysis of public investments for *PIP 2007-2010*. A template for the textual content of the *PIP 2007-2010* document was done, which included descriptions of the past and future medium-term macroeconomic environment and description of GOAZ socio-economic plans to guide the medium-term PIP projects. Tables for medium-term macroeconomic parameters, the breakdown of investment expenditures into sectors, years and sources and comparisons of trends in expenditures with previous years were made.

The PIP Project has been assisting the MOED to give better direction to the current ad hoc PIP process but more crucially to build capacity in order to take charge of the public investment programming process. In macroeconomic management, the MOED must have one of the leading roles in taking control of rationalizing economic policy and especially of investment policy. The MOED wants to be empowered with technical capacity and clear purpose. The MOED appears to be stepping up to this responsibility as seen in light of its recent actions. These include the assignment of a highly competent economist as Deputy Minister for economic affairs and the willingness to scrutinize the MOED under a Functional and Institutional Review. The Review will address specifically the issues of macroeconomic policy-making and getting control of the PIP process. The PIP Project international STTA is undertaking the Functional and Institutional Review with full MOED co-operation. The MOED is expected to comment on the Review before end-2006.

The PIP Project will increase the MOED capacity to evaluate PIP project proposals and assess their context in SDPs. This work goes in tandem with better PIP CC processing between MOED and LMs. The PIP Project will continue to include the LM technical staff to receive extensive training in integrated project preparation and management. The LM mid-management staff participates in two-day economic and investment policy workshops of PIP Project. The PIP Project makes every effort for the technical and policy-making staff across the GOAZ to work broadly and collaboratively.

e) Recognition of the place of public participatory practices

The PIP Project produced an extensive report on current participatory practices in public investment project formulation and implementation. The report assessed the overall environment as well as individual LM approaches to public involvement to public investment expenditures. Public participation was found to exist only in SPPRSD preparation. The Project distributed the report to LMs and will follow-up its recommendations in ongoing work in SDPs. The PIP Project also became involved in USAID Civil Society Project on Community Development Activities. The Project addressed at the Regional Conferences the topics of local budget cycle, local budget relations with the central government budget (timing and fiscal dependency), links to the national and regional strategies (i.e. SPSEDR and SPPRSD), timing of budget hearings at the local level, and the benefits of local participatory practices in the use of public funds. The Project will continue this involvement by keeping its focus on local investment project implementation.

The LMs should keep their participatory channels of SPPRSD preparation process open and further use them for their annual planning and budgetary work in their responses to Call Circulars. In this connection, the line agencies' field offices and operating companies should remain in close contact with civil society, other non-government organizations, citizens, and donors who are actively interested in their sectors' development prospects and/or who will be affected by the proposed public investment programs. The PIP Project will work with the selected line ministries to strengthen their use of the participatory processes in project identification and prioritization.

There is also value in dealing with local level investment program activities because, by informing and involving the public, who are closer to the investments process, counterweights to the non-participatory inclinations of local REHs and LMs are created. By working with local governments and local institutions, the PIP Project will keep up the practice of public participation in local public investment decisions. Introducing any amount of accountability is important. The public discussions on budgeting practices and monitoring and evaluations of program implementation benefit the full of project management cycle.

f) PIPP Manual and institutionalizing PIP process

The drafting, adoption and implementation of a comprehensive PIPP Manual were designed to be a major output of the PIP Project. The Manual was conceived as a modular product where the ongoing outputs of the PIP Project would be incorporated over the duration of the Project. The Technical Notes and outputs of presentations and workshops would create the sequential stages of public investment policy and project cycle management. At the same time, it was conceived that the Manual would be a 'living' document where the MOED and MOF would continue to modify and extend the coverage and technical refinement of PIPP related issues.

The PIP Project has produced a first-cut draft PIPP Manual, which covers the topics up to and including the approval of GOAZ Public Investment Program in the Consolidated Budget. The draft PIPP Manual's content leads with the all-important institutional set-up of coherent economic policy guidance and an investment policy within it.

The timing of drafting the Manual was moved forward by MOED request in order to accommodate the institutional set-ups as early as possible. One of the institutional set-ups is the role of MOED's technical capacity, policy-making and authority over LMs with respect to PIP process. In the last few years and in the face of recent oil revenue influx, public investment allocation decisions have become more discretionary and less strict in choices. These decisions have been breaching economically prudent spending limits and eroding investment qualities.¹² The implementation of PIPP Manual procedures will help both MOED and MOF to evolve gradually and systemically the public investment programming into an effective planning, budgeting and macroeconomic management tool by imposing order and proper agency responsibilities. This will require, among other things, establishing proper procedures for line ministries' budget proposals to be evaluated and agreed only by the MOF and the MOED. The President/Cabinet's involvement in the budgetary process should be confined to the approval of the common guidelines for Call Circulars at the beginning of the process and of the draft budget at the end. Prior to the final approval of the budget, the Cabinet should act as a referee to solve any remaining disagreement between the central ministries and line agencies. The draft PIPP Manual, if adopted, would at least give a framework for the institutional relationships as well as a clearer direction to public investment projects.

2. Training

The training program has been a very effective component to support and implement the three main components of improved PIPP management. In the first year, the training program was comprised of two rounds of three-week formal training sessions, various seminars and workshops, on-the-job work, one high-level study tour, and a technical course abroad.

During the first year the PIP Project

- made preparatory work for multi-week training program, hired a STTA, and used own staff to carry out the scheduled program. (The performances of the originally contracted firms, TRG and BIDE, were unsatisfactory.)
- held seminars on MTMF/HPPC for MOED staff; on SDP for MOED and LMs staff

¹² The budget expenditures are not in full observation of the intent of the LTORMS. The current budget expenditures are also severely testing the efforts to contain inflation for 2006 below Government's target.

- held workshops on PIP Call Circular preparation, FP Model
- held High-Level Workshop on HPPC in April 2006
- arranged Study Tour to Turkey to support the HL Workshop results
- maintained on-the-job training to MOED and LMs staff on SDPs and PIP CC.

In the WP year ahead, the PIP Project

- in 2006, will train 45 staff from COM, MOED, MOF and 4 LMs and local agencies in 2-Rounds of 2-1/2 week course
- in 2007, will train 90 staff from COM, MOED, MOF and 4 LMs and local agencies in 4-Rounds of 2-1/2 week course
- will arrange a Study Tour(s) to Norway and/or Kazakhstan
- will arrange technical traineeship courses in Turkey
- will continue on-the-job training to MOED and LMs staff on SDPs, PIP CC, and project preparation and analyses.

During the first year, the varied and repeated nature of training instruments built knowledge and acceptance in the GOAZ staff of PIPP reform essential steps. The seminars and workshops brought along the mid-level management to understand the key modules of PIPP management and their linkages. The formal training sessions brought together technical staff from MOED, MOF and LMs to learn of integrated investment project preparation. On-the-job work supported technical staff in practicing their new project analyses skills and in implementing new tools such as PIP CC. The technical courses gave the central economic agency staff macroeconomic analyses and modeling skills. The High Level Workshop became the forum for MOF, MOED, LMs, NBA, COM, Parliament, IFIs, UN, and bilateral donor countries to discuss GOAZ investment policy and budgeting, and agree on possible changes to institutional structures. The Study Tour immersed high-level authorities into fully-fledged and operating environment of policy-making, planning and medium-term budgeting in Turkey, which has a very long experience in public sector planning and management. The outcome of the study tour resonated so well that the MOF authorities resolved to take steps in investment expenditure budgeting in alignment with study tour (and the PIP Project) prescriptions.

The study tour motivated the authorities and the PIP Project to design follow-up tours and technical traineeship opportunities.¹³ The PIP Project is trying to arrange study tour to Norway and/or Kazakhstan and traineeship courses in Turkey. The formal training sessions will continue with two more rounds at the end of 2006 and additional four rounds in 2007. The training session materials and content are refined by further contextualizing them on ongoing basis. More importantly, the local training counterpart is assuming growing responsibilities in the content preparation and delivery of training, which assures potential long-term sustainability of the PIPP management skills.

¹³ At the Study Tour in Turkey, the representatives from Turkish State Planning Organization, Ministry of Finance, and the Treasury offered to Azerbaijani counterparts traineeship opportunities in ongoing in-house training and skills-enhancement courses of the Turkish agencies.

The PIP Project's case study approach in its training sessions has been politically judicious. The Project prefers to use investment project examples, which are politically inert, to make the point of good cost/benefit analyses. The PIP Project chooses not attend directly to the merits of active public investment projects and advise GOAZ on each project individually. In that direction lie opposition from strong local special interests, institutional antagonism and non-cooperation.

3. Drafting the PIPP Manual

The PIP Project had designed the production of a PIPP Manual as a major output of the Project. The Manual would be the compilation of key modules on PIPP management as PIP Project worked with the GOAZ staff on them. The Technical Notes and outputs of presentations and workshops were to create the sequential procedural stages of public investment policy and project cycle management. The timing of the producing Manual was pushed somewhat forward by the MOED's desire to put in place certain institutional structures and procedures by end-2006. The PIP Project has now produced a draft PIPP Manual, which covers the public investments process up to and including the approval of Public Investment Program by GOAZ.

The areas and procedures dealing with project implementation and M&E in a manual format will be produced separately. Towards that goal, many documents about the technical aspects of project implementation and M&E from international sources are included as support materials and references in e-format to the draft Manual document.

4. Successful counterpart cooperation

The MOED is the main counterpart organization of the PIP Project. Within the MOED, the EPFD and the PIP Division were particularly open and collaborative in implementing WP tasks. The MOF, COM and select LMs were also engaged and involved in the various stages of the PIP Project activities.

Overall, the authorities have been proactive and helpful in furthering the PIP Project recommendations. They have also been frank in advising the PIP Project in what their needs are and what tasks would be most effective.

The MOED, in implementing the PIP Call Circular on a rapid basis, facilitated good progress. The MOED also voiced ownership for the PIP process and is now encouraging adoption of the draft PIPP Manual procedures. The MOED authorities asked for the Functional and Institutional Review of the Ministry to improve specifically the areas of macroeconomic policy-making and getting control of the PIP process.

The MOF has participated in formal training sessions with their technical staff and the study tour with their deputy minister. The MOF has taken steps to tighten the qualification and approval of investment projects by the MOED. MOF will possibly use some of the features of the PIP Call Circular for their next Budget Circular. The COM has attended management level seminars and contributed perceptive comments on the PIP process. They have also participated in the study tour to give gravitas to the occasion and the exchanges. The NBA has given strong backing to creating a MTMF and offered support in the technical functions of the HPPC-type institution. The Director of Monetary Policy Department joined the study tour.

5. Institutional conditions for implementation of PIPP Manual

The institutional conditions for PIPP Manual implementation are promising. The draft Manual is being reviewed by the MOED. Following comments and amendments by the MOED and other agencies of GOAZ, the draft should be in good shape for adoption by GOAZ. There is already much important support to the institutional and procedural adjustments to address the current inadequacies of the PIPP management. The central economic agencies and selected LMs have been informed thoroughly during the course of the PIP Project's first year about the general aspects of the draft Manual arrangements.

The PIPP Manual is the distillation and coalescence of all the impacts from the activities of the PIP Project. Therefore, the many-front efforts and successes of the PIP Project have prepared a good institutional condition for the next phase of the draft PIPP Manual. The successes include the furthering of understanding and appreciation of content of every technical note, the deliberations at workshops and presentation, the skills gained in formal training sessions and technical courses, and the cooperation the MOED, MOF and NBA have given. The PIP Project has benefited immensely also by the close coordination and support of the USAID and the US Embassy in carrying its message to GOAZ.

The current operational stage of the draft Manual is its review and legal adoption by GOAZ. This will require active and judicious sponsoring by MOED, MOF and NBA (and SOFAZ) to sustain the most important contents of the recommended PIPP management instruments: a HPPC-type policy guidance institution, a quantitatively consistent economic framework and technical empowerment of central economic agencies. Beyond this, the PIP procedures and instructions are, overall, familiar and expected by MOED, MOF, and selected LMs. Many crucial staff are informed and trained to implement many aspects of the initial PIP preparation stages. In the next stage, the formal training sessions and on-the-job work with the LM and MOED staff in annualizing SDP programs and disciplining project cycle procedures will be the main work of the Manual implementation. The integration of PIPP management issues such as M&E, evaluation, and using proper economic analyses will follow in due course. The MOED and MOF will have to coordinate closer on all capital budgeting. The MOED will have to gain capacity in assessing SDPs and PIP project proposals. The spreading and deepening of the Manual implementation will occur over actual PIPP management cycles.

The central economic institutions of GOAZ have started working towards collaborating and sharing technical proficiency in macroeconomic analyses. They are starting to discuss their work on the same macroeconomic consistency models, to share economic data for policy purposes, and to produce monthly/quarterly bulletins. These initiatives are phenomenal developments in the context of Azerbaijan's institutional environment. The PIP Project is involved in these developments. The MOED, MOF, NBA, and SOFAZ will gain political authority by their technical proficiency by giving macroeconomic management advice to the President's Office and the COM. The PIP Project has made good inputs and assumed sponsorship in bringing these institutions together on this institutional agenda. The WB has been recommending consistency in policy, planning and budgeting with a similar integration process by institutionalizing high-level policy guidance and quantitative economic framework. These developments must be encouraged by all donors.

6. Adjustment to the timing of tasks and new initiatives

The WP tasks in the areas of implementing monitoring and evaluation of investment programs and projects by MOED and LMs are postponed until later. The timing of the project cycle management requires that these are brought aboard in due time to be most

effective. Because the PIP Project is implementing the PIPP management reform in stages from broad to narrow and in time sequence, the M&E tasks assume less immediate status. This is also reflected in the current composition of the draft PIPP Manual. The timing of the producing Manual was pushed somewhat ahead by the MOED's desire to put in place certain institutional structures and procedures by end-2006. In consequence, the draft PIPP Manual covers only the stages up to Public Investment Program approval in the budget. The areas and procedures dealing with project implementation and M&E in a manual format will be produced separately. Towards that goal, many documents about the technical aspects of project implementation and M&E from international sources are included as support materials and references in e-format to the draft Manual document.

In the public investment project preparation, to make proper benefit/cost analyses one ideally would use economic prices and modern project parameters. A study to calculate shadow prices in Azerbaijan and description of modern project parameters were thought to be desirable in order to account for distortions and to get better outcomes. However, in the first year of the PIP Project the need for such strong quantitative measurements did not materialize. The PIP Project is considering of undertaking shadow pricing and national project parameters studies during the second year of WP. The PIP Project has discussed the merits of this with the WB and has been in contact with other experts to plan the timing and the feasibility of the studies. Within the context of Azerbaijan's liberal trade regime, the urgency for shadow price calculations may also be revisited.

The PIP Project will continue studying the technical aspects of the PIPP in Azerbaijan. The Project intends to produce a number of Technical Notes and disseminate the information within GOAZ. Some of these were requested by counterparts. These will include among possible others,

1. setting of spending limits to sectors for budget resources: economic/policy justification, MOF decision, inclusion in CC language, adjustments, etc.
2. prioritization methodology: in SDPs and project selection, elaboration or addition of material to Annex 14 in draft PIPP Manual
3. implications of recurrent costs of capital projects in future budgets: considerations, calculations, sectoral characteristics, integration into budget preparation, MOF/MOED/LM nexus.

V. GUIDING PRINCIPLES OF THE PIP PROJECT

The PIP Project's Work Plan has been influenced by the Project team's concern that a large share of TA projects, particularly in the areas of economic reform fall short of attaining their full objectives. TA projects usually intend to leave behind technical and institutional capacity, but they mostly become bogged down in trying to straighten some wrong policies or to correct some wrong project decisions. Under the existing budgetary system in Azerbaijan, public investment policy-making and project selection are bound to be haphazard, and it will be useless for the PIP Project to be much concerned with individual investment policy errors and wrong project decisions. The correct approach for the PIP Project is instead to help the GOAZ build up the necessary institutional, organizational, procedural and technical capacity for making correct public investment decisions while also minimizing opportunities to misuse public resources.

The Work Plan tries to take into consideration the following realities:

- The PIP Project, which aims at improving public investment policy and programming by promoting transparency and accountability in public capital spending, will be resisted tacitly, if not openly, by some government officials involved in the formulation of public investment policy and programs for fear of losing “rent seeking” opportunities they currently enjoy.
- The government agencies involved in public investment policies and programs have inadequate institutional (i.e., rules and regulations), organizational, and technical capacity to adopt modern methods of capital budgeting and project development.
- Since 1993, the major IFIs (WB, IMF, and ADB) have provided the GOAZ with substantial know-how on good budgeting through specialized TAs, a wide range of reports on economic issues, and continuous dialogues with government officials on economic and financial matters. Therefore, government officials involved in budget work, at both central and line ministries are informed of the state of the budget system, and its weaknesses and what needs to be done. What the authorities need most is an operational and on-the-job help in designing and implementing the most relevant and feasible solutions as well as the necessary “supportive” training.

VI. THE WORK PLAN FOR THE SECOND YEAR

COMPONENT A: Determination of long-term national and sector development objectives, strategies and investment policies for medium-term planning and budgeting purposes at both macro and sector level.

Sub-Component A.1: Enhancing the Central Agencies’ (President’s Office, Cabinet of Ministers, MOED, MOF, and NBA) capacity and cooperation for basing economic decisions on a set of sound development objectives, strategies and investment policies. These objectives, strategies and policies would respond to demands of the population, and would be realistic, sustainable, and internally consistent.

High Policy Planning Council (HPPC): Azerbaijan needs to consolidate the formulation of its public investment policy and program and integrate it with the planning and budgeting processes. This should begin with the unification of the “instructions” given by the government separately at different times for the preparation of the annual and rolling planning and budgeting instruments. In addition, these instructions (e.g. calls for inputs for SPPRS/SPSEDR or for their Annual Progress Reports, Budget Call Circular, and PIP Call Circular) need to be improved to provide the conceptual and quantitative guidance to government agencies in preparing their planning and budgeting exercises.

The “common call circular” will be prepared by an “Inner Economic Cabinet,” provisionally called the High Policy Planning Council (HPPC), for submission to the Cabinet of Ministers. The Council should comprise, at minimum, of the PM, State Adviser on the Economy, Minister of Economic Development, Minister of Finance, and Chairman of the NBA. The HPPC will determine and/or confirm the country’s political, social and economic development objectives, strategies and main policy directions over the medium- to long-term. It will give the necessary guidance and instructions, in the form of a “Joint Call

Circular,” to initiate simultaneously the work on SPPRSD/SPSEDR (or their Annual Progress Report), the PIP, and MTEF/State Budget. This will be the product of substantial technical work providing the relevant agencies with necessary parameters, technical guidance, relevant constraints (e.g. sector resource ceilings), and indicative targets. The required technical work will include an assessment of the country's recent social and economic performance as well as current prospects in light of expected resource availability and international and regional developments. The assessment should provide the HPPC and the Cabinet with alternative development scenarios to show the trade-offs in terms of social and economic costs of their political choices.

HPPC will not be a new and additional organ. It will be a more technically specialized segment of the Cabinet of Ministers, which evaluates and screens the major social and economic decisions prior to their consideration by the full Cabinet.

Task 1: Identify the proper organizational and procedural set-up for a High Policy Planning Council (HPPC) for determining early in the year at the top Government level (President and Cabinet) an integrated set of national development objectives, strategies and investment policies to guide the national and sectoral planning, investments, and budgeting activities.

Outputs: Draft Manual for Public Investment Policy and Project Management (PIPP Manual) which describes the procedural set-up and policy making process in the top Government level. The GOAZ comments and legally adopts the PIPP Manual.

Timeframe: Q3/06-Q1/07.

Task 2: Determine the organizational and procedural arrangements for the provision of technical support services for the HPPC functions.

Outputs: (a) Draft organizational responsibilities on the procedures for coordinating the technical support work and services for the HPPC functions according to GOAZ comments and prescriptions on draft PIPP Manual, (b) A Functional and Institutional Review of the MOED with special emphases on enhancing capacity in macroeconomic policy-making, investment policy determination and PIP management.

Timeframe: (a) Q3/06-Q1/07, (b) Q3/06-Q1/07.

Task 3: Help the MOED to develop proposals in instructing budget organizations in their sector planning and investment budgeting work for the coming medium-term expenditure framework, including the determination of the set of national priorities and coordinate with other agencies to build a MTMF.

Outputs: (a) A draft set of “National and Sector Priorities for Social and Economic Development” in line with the country’s medium to long-term development plans (SPPRSD/SPSEDR) and resource constraints based on a MTMF collaboratively designed by GOAZ agencies (MOED, MOF, NBA, SSC, SOFAZ), (b) Draft a “Cabinet Decree on Instructions for Planning and Budgeting over FY 2008-11” as the basis for a combined Call Circular. The “common” Call Circular is for the Annual Rolling SPPRSD/SPSEDR Review-Budget-PIP guided by the MTMF provided by

technical support of central economic agencies of GOAZ, (c) Medium to long-term Sector Development Plans benefiting from national and sectoral development objectives and strategies, resource constraints identified by the SPPRSD/SPSEDR, MTMF, and stakeholder inputs, (d) A macroeconomic and fiscal database and library, (e) A Technical Note on "Indicative Sector Spending Ceilings" and its dissemination within GOAZ.

Timeframe: (a) Q4/06-Q2/07, (b) Q1/07-Q2/07, (c) Q4/06-Q2/07, (d) Q3/06 thru end-Project, (e) Q1/07-Q2/07.

Medium-Term Macroeconomic Framework: The objectives, strategies and project content of a sound public investment (capital spending) policy and program should be determined only in a wider context of national political, social and economic objectives and strategies. Decisions regarding the proper magnitude of total capital spending of the public sector and its distribution by economic sectors and by major programs and projects should be made only within a Medium-Term Macroeconomic Framework. At present, however, the planning and budgeting instruments in Azerbaijan (SPPRSD, SPSEDR, PIP, MTEF, the Consolidated Budget, and the Annual State Budget) refer to the Socio-Economic Development Forecasts (SEDF) prepared by the MOED without internal consistency check among the economic sectors.

MOED has an Economic Policy and Forecasting Department, which is involved in forecasting work for different purposes, including for SPPRSD and SPSEDR development over the medium-term. It also provides the framework for public investment policy and its project content.

The "common" (Joint) Call Circular: A major weakness in public expenditure management in Azerbaijan, as in almost all countries trying to implement poverty reduction strategies, is the lack of effective linkages between the planning (SPPRSD and SPSEDR) and Budgeting (MTBF, the Consolidated Budget, and the Annual State Budget) instruments. The public investment policy and its projects content could and should provide the necessary linkage between planning and budgeting because they constitute the most critical component of the two. The PIP Project aims at helping GOAZ to integrate its planning and budgeting through using the public investment policy as a bridge. The first step of this process is the integration of planning and budgeting at the objective and strategy setting stage reflected in the Joint Call Circular.

The JCC should incorporate the contents of the separately issued call circulars to the government agencies for submissions to MOED and MOF for the preparation of SPPRSD/SPSEDR (or their Annual Progress Reports); the PIP; MTEF and Consolidated Budget. The synchronization of work on all these closely related policy instruments would represent a significant improvement in public expenditure management. However, an even more significant improvement would result from the unification of each line agency's responses and spending proposals for different planning and budgetary instruments, thus assuring intra-consistency of each agency's submissions. This will result in both MOF and MOED using one-and-the-same set of sectoral policies and spending proposals in the preparation of different policy instruments. This procedural development will have to be accompanied by a substantial improvement in the content and quality of the JCC. The CC for *PIP 2007-2010* has already started these improvements. The MOF and SPPRED Secretariat now agree that the unified instructions and the improved contents of the call circulars would serve to make planning, programming, and budgeting more coherent. The next budget cycle will be a good opportunity to move forward.

Sub-Component A.2: Help the LMs and agencies (ministries and local executive authorities) to enhance their capacity in formulating sector development objectives, strategies and investment policies in line with both the peoples' demand for the sector's output and the guidance and constraints provided by the central Government.

The PIP Project will help government agencies to enhance their capacity to formulate sector development objectives, strategies and investment policies. In doing so, the line agencies will unite: (a) the guidance and constraints provided by the Central Government (top-down planning) and (b) the budget organizations' demands (incorporating demands of citizen's and non-government organizations) for the sector output and services (bottom-up planning).

The macro (semi-macro) level planning instruments developed under MOED guidance should normally provide the necessary framework for sector development strategies and programs, which would in turn define investment policies and projects of line agencies. At present, there are two development-planning instruments at the sub-central level: First, there are State Development Programs for districts and cities elaborated and implemented by the Local Executive Authorities appointed by the President. Such development programs may include urban and rural development including telecommunications, roads and utility services. Second, there are Sector Strategic Development Plans, which are prepared by line ministries and define the direction and emphasis of the sector programs. These plans do not make close references to the SPPRS and are approved directly by the Cabinet of Ministers and then enacted into law through a Presidential Decree. What stands out as the most characteristic feature of these Sector Strategic Development Plans is their use by the line agencies as a parallel system of getting approval and funding for their investment projects outside the PIP.

There is no formal process established to align and integrate the different planning and policy instruments at the sector level. There is little indication that regional balance objectives of the SPSEDR are incorporated into the sector plans. Similarly, although there is some acknowledgement by line ministries that the SPPRS should guide sector policy formulation this is not strictly adhered to in practice.

Task 4: Help to prepare/update within Sector Development Plan in the selected line agencies the sector development objectives, strategies and public investment policies to meet the updated priorities of the central Government and demands of stakeholders.

Outputs: (a) Medium to long-term Sector Development Plans benefiting from national and sectoral development objectives and strategies, resource constraints identified by the SPPRS/SPSEDR, MTMF, and stakeholder inputs.

Timeframe: (a) Q4/06-Q2/07.

Task 5: Engage and disseminate findings to GOAZ agencies and non-government stakeholders from reviews and evaluations of current participatory processes and practices in expenditures of capital budgets and investment programs.

Output: Disseminate information in conferences and workshops to improve the public participation procedures and practices in expenditures of capital budgets and investment programs. Emphasize of participatory practices in the draft PIPP Manual.

Timeframe: Q3/06-Q2/07.

COMPONENT B: Evolution of the Public Sector Capital Budget Formulation as a bridge within the current budgeting framework between development planning (SPPRSD/SPSEDR/SDP) and the Consolidated Budget.

The formulation and evolution of the public sector capital budget will reflect the changing importance and characteristic features of public investment policy and its projects content over time. The PIP Project envisages helping the GOAZ to develop its capital budgeting as a policy tool for (a) development planning, (b) macroeconomic management, and (c) efficient resource use over the medium- to long-term. The prerequisite for this is to have the right institutional and policy framework by which public investment policy could have effective linkages with social and economic development objectives and strategies at the national (macro), sectoral, and local levels.

Sub-Component B.1: Help improve: (a) in the Central Agencies (President's Office, Cabinet of Ministers, MOED and MOF), and the Parliament the recognition of the importance of the Public Sector Capital Spending as both a development planning and a macroeconomic management tool and (b) the capacity of MOED and MOF to instill these features to the capital budgeting in Azerbaijan.

The PIP Project will help develop the Central Agencies' (Parliament, President's Office, Cabinet of Ministers, MOED, and MOF) recognition of the importance of the public sector capital spending as an effective policy instrument for: (a) development planning, (b) macroeconomic management, and (c) efficient resource use. The development of such recognition, however, should be accompanied by the enhancement of MOED and MOF's technical capacity to design and use public capital budgeting as a policy tool.

A meaningful analysis of public investment policy and sound prioritization of its projects would require comprehensive coverage of public investments irrespective of their sources of funding and of their size and importance. At the same time, the definition of public sector should not allow losing sight of good budgeting responsibilities of different categories of state agencies by pooling together their capital spending within the consolidated budget.

The development of public investment policy and program with a view to serving the three policy functions will require substantial changes not only in their coverage but also in the way they are processed into the State and Consolidated Budget. Considering that the current official practices and procedures are the result of ad hoc decisions reflecting partly administrative/operational convenience and partly the portfolio competition among the budgetary agencies, the PIP Project and MOED will continue to explain and lobby with both central government (Parliament, the President's Office, the Cabinet, and MOF) and line ministries for these required changes.

The PIP Project will help MOED enhance its capacity to guide and evaluate the line agencies' work on sector strategies and sector development programs as well as their capital spending proposals. This will involve support to the sector divisions of EPFD and the Investment Policy Division of the Department of Investments and International Economic Cooperation.

Close cooperation between MOF and MOED is required for sound planning and management of public capital spending in the context of recurrent costs and capital spending requirements. With highly fragmented budgeting of public capital spending and

without a program-based budgeting, the government budgeting system in Azerbaijan does not have any built-in mechanism to assure consistency and linkages between capital and recurrent expenditures. The PIP Project will help both MOF and MOED to develop the necessary capacity to better assess the recurrent expenditure implications of capital spending proposals by line agencies.

Task 6: Promote recognition in the President's Office, the Cabinet of Ministers and the Parliament of the importance and impact of capital expenditures in order to facilitate the realization of the objectives of the PIP Project.

Outputs: Establishment of an effective communication with and providing briefings to the key members of MOED, MOF, NBA, the Office of State Advisor on Economic Policy, the Economic Policy Department of the Cabinet, and the Parliament economic/budget committee.

Timeframe: Q3/06 thru end-Project.

Task 7: Develop in the draft PIPP Manual the linkages and integration of planning, programming and capital budgeting. In the draft Manual, 'programming' covers identification, preparation, and appraisal of projects for the PIP.

Outputs: (a) Draft PIPP Manual is submitted to MOED, (b) The draft PIPP Manual is commented by LMs and GOAZ, (c) Help MOED and line agencies to implement the sequenced procedures of the PIPP Manual.

Timeframe: (a) Q4/06, (b) Q4/06-Q1/07, (c) Q2/07 thru end-Project.

Task 8: Help increase the capacity of staff of sector divisions of MOED to review and evaluate the Line Agencies' sector development plans and sector programs/projects.

Outputs: (a) On-the-job training through review of the LM sector plans, programs, and PIP proposals jointly by the PIP Project experts and MOED staff, (b) Identify the required organizational and procedural rules for coordination of work in review and evaluations of SDPs.

Timeframe: (a) Q4/06 thru end-Project, (b) Q1/07-Q2/07.

Task 9: Help increase the capacity of MOED's Public Investments Division and Investment Policy Division to review and evaluate the Line Agencies' capital spending programs and investment projects.

Outputs: (a) Identify the existing as well as required organizational and procedural rules for coordination of work in review and evaluations of SDPs and capital investment programs, (b) Evaluation of the PIP 2007-2010 process and Call Circular format with view to increase the impact of Call Circular on the PIP 2008-2011 and with reference to alternative public investment strategies and policies for Azerbaijan, (c) On-the-job training through review of sector plans and the Line Agencies' investment programs and projects, (d) A Technical Note on "Prioritization in SPDs and of Projects" and its dissemination within the GOAZ, (e) Organize the information

base of Azerbaijan's public investment projects and expand the depository/library of investment reports and studies.

Timeframe: (a) Q3/06 thru end-Project, (b) Q4/06-Q2/07, (c) Q4/06 thru end-Project, (d) Q1/07-Q2/07, (e) Q3/06-Q2/07.

Task 10: Help improve the cooperation between the MOED and MOF on the overall capital budget (i.e., PIP and non-PIP capital expenditure) formulation within the existing budgeting process.

Outputs: (a) Identify the existing channels and procedures of cooperation between the MOED and MOF on the overall formulation of capital spending during the budget cycle, (b) Improvement in the capacity of MOED and MOF staff to incorporate more realistic recurrent expenditures in capital budget formulation, (c) The relevant staff of the MOED and MOF works closely on capital budgeting process in the draft 2008 budget.

Timeframe: (a) Q4/06, (b) Q2/07 thru end-Project, (c) Q1/07 thru end-Project.

Sub-Component B.2: Help the Line Agencies to develop or improve their institutional and technical capacity to identify, formulate, and prioritize the necessary investment policies and programs to realize the sector strategies and objectives while at the same time complying with the guidance and requirements of the central Government.

Task 11: Work together with and improve the capacity of the relevant divisions of selected Line Ministries to identify their sector priorities for budgetary spending, both recurrent and capital, and help prepare their sector programs in line with the outputs of Task 4.

Outputs: (a) Assist in determining sector priorities for budgetary spending proposals of the selected LMs based on national development policy guidance, (b) Assist evaluating sector plans and investment programs for FY2008-11 for the selected LMs with respect to linking programming and spending between SPPRSD-SDP-Budget.

Timeframe: (a) Q1/07, (b) Q1/07-Q2/07.

Task 12: Help strengthen the capacity of line ministries to analyze recurrent expenditures and their implications of their capital spending proposals.

Outputs: (a) A Technical Note on "Recurrent Costs Implications of Investment Projects" and its dissemination within the GOAZ, (b) Draft proposals for improvement in the current practice of recurrent costs estimates of investment projects in PIP, (c) Emphasize in case study examples of recurrent costs implications into the PIP Project Integrated Project Preparation training courses.

Timeframe: (a) Q1/07, (b) Q2/07, (c) Q2/07 thru end-Project.

Task 13: Promote participation in the consultation process between the LM staff and the representatives of other stakeholders.

Output: (a) Disseminate information and encourage involvement of the stakeholders in the regions on investment programming and budgeting decisions, (b) Improve conditions for inclusion of substantive inputs from civil society organizations and stakeholders on public investment project preparation.

Timeframe: (a) Q3/06 thru end-Project, (b) Q1/07 thru end-Project.

COMPONENT C: Strengthen the institutional and technical capacity of budget organizations to manage successfully the public investment project cycle (comprising identification, appraisal, preparation, prioritization, implementation, and monitoring and evaluation).

The PIP Project's success in realizing its expected contribution to improving the effectiveness of public investment policy and programming will critically depend on the Government's willingness to subject the public project cycle to a well-disciplined and technically sound system of relevant procedures. Hence, PIP Project must continue to provide technical briefings and informal lobbying for necessary overview and scrutiny of line agencies' capital spending proposals by MOED and MOF. Simultaneously with this work, PIP Project will help MOED and MOF to draft right procedures for sound project development and processing, i.e. PIPP Manual.

The PIP Project will help MOED to develop the necessary institutional and technical capacity of its relevant departments/divisions to undertake successfully these tasks. This capacity can be used in the preparation of the State Budget and in the investment programs of SPPRSD and SPSEDR. Moreover, in project appraisal and preparation, line ministries will need to use technical approaches like economic and social cost-benefit analysis. The necessary guidance and parameters for such analysis should be provided by MOED, (possibly the Center of Economic Reforms) and outside specialists.

Sub-Component C.1: Develop institutional and technical capacity and sound procedures for sound project appraisal and preparation in key central Government bodies (Office of the President, Cabinet of Ministers, MOED, and MOF).

Task 14: Promote recognition and support at the President's Office and the Cabinet of Ministers for applying improved social, economic and financial criteria in the preparation and prioritization of public investment projects and proper scrutiny by the MOED and MOF.

Output: (a) Establishment of effective communication with and periodic briefing to the relevant advisors of the President and to the offices of the COM.

Timeframe: Q3/06 thru end-Project.

Task 15: Help the relevant departments/divisions of MOED and MOF to improve their technical capacity for evaluating social, economic and financial analysis of public capital spending programs and projects.

Outputs: (a) Identification of the set of “project appraisal, preparation and negotiations procedures,” which emphasizes social, economic, financial, and engineering analyses based on market-oriented economy and modern norms rather than the currently practiced legacies of centrally administered economy norms, (b) On-the-job training of MOED and MOF staff by joining them in project appraisal through social, economic and financial analysis, (c) Develop a prototype set of “National Economic Parameters” (shadow or accounting prices) to be used for social and economic analysis of public capital spending programs and projects, (d) Assist MOED define qualifications for staff recruitment for improved PIP process.

Timeframe: (a) Q1/07, (b) Q4/06 thru end-Project, (c) Q2/07 thru end-Project, (d) Q1/07 thru end-Project.

Task 16: Help the MOED to work with the MOF in developing the necessary guidelines and instructions for the line agencies to use realistic unit costs and a good system of user fees in proposed projects.

Output: (a) The draft “guidelines and instructions” on unit costs and user fees in selected line ministries.

Timeframe: (a) Q1/07-Q2/07.

Sub-Component C.2: Support and help the development of institutional and technical capacity and right procedures at the line agencies for sound management of the public investment project cycle, including project identification, appraisal, and preparation.

Line ministries’ staff plays a limited role in the preparation and detailed evaluation of projects. Large infrastructure projects mostly originate from and are developed by the operating companies of line ministries or as are the cases usually in social sectors by donor agencies. Line ministries see their role more limited to making policy impact assessments and focusing on project prioritization and sequencing. Considering, however, that the state operating companies’ investment projects should normally be outside the PIP, the PIP Project’s support to line ministries should mainly be aimed at the development of project appraisal capacity for the cases where the project inputs and outputs are not properly valued at market. This will require gaining familiarization with the appropriate policy-based as well as cost-based prioritization processes, particularly economic and social cost-benefit analysis. Even though the actual project appraisal and preparation by using these techniques may be outsourced, the line ministries should have adequate capacity to oversee and evaluate the work done by outside experts. In addition, as distinct from the current practice of the PIP formulation, the PIP Project sees all capital spending of the budgetary agencies as part of public investment policy and program. This means that the formal project appraisal and prioritization techniques should be applied to all capital spending proposals, albeit at appropriately simpler forms for simpler and smaller projects.

Task 17: Promote the necessary awareness and recognition at the line Minister/Deputy Minister level of the importance of applying improved social, economic and financial criteria to the preparation and prioritization of public investment projects and not avoiding their scrutiny by the MOED and MOF.

Output: Establishment of effective communication and briefings to the selected LM Ministers/Deputy Ministers.

Timeframe: Q4/06 thru end-Project.

Task 18: Help the selected line ministries improve their technical capacity for social, economic and financial analysis of public capital spending programs and projects by using the set of National Parameters, which were developed jointly by the MOED and MOF (see Task 15).

Outputs: (a) Familiarize the selected LMs and their staff with the set of "National Parameters" (shadow or accounting prices) and with their use for social and economic analysis of public capital spending programs and projects. (b) On-the-job training of the selected ministries' staff in the use of National Parameters by joining them in project appraisal through social, economic and financial analysis.

Timeframe: (a) Q4/06 thru end-Project, (b) Q2/06 thru end-Project.

COMPONENT D: Development of the GOAZ staff's necessary technical knowledge and skills to formulate and implement sound public investment policy and programming, and investment projects through high quality training program and building of local training capacity.

The extensive training component supports the main objectives of enhancing the GOAZ's capacity in the areas of strategic development planning, capital budgeting and project development, appraisal, and monitoring. Based on a Training Needs Assessment that the PIP Project carried out as part of its major Diagnostic Review in May 2005, a Training Plan, constituting "Component D" of the PIP Project Work Plan, has been issued with the original Work Plan.

Sub-Component D.1: Help high GOAZ officials and other stakeholders to understand the purposes and mechanisms of PIPP for increased effectiveness of economic management and use of public resources.

Task 19: Create occasions and events for key policy makers to learn and experience together the functioning of improved public investment policy and programming and economic policy-making that are guided by an MTMF under direction of a HPPC-type institutional arrangement.

Output: (a) Study tours (Norway and/or Kazakhstan) for high-level staff in central Government bodies, MOED, MOF, and the selected line ministries, (b) Workshops and seminars on investment policy-making and policy management.

Timeframe: (a) Q4/06 thru end-Project, (b) Q4/06 thru end-Project.

Sub-Component D.2: Help GOAZ technical staff to learn and be proficient in public investment policy and programming and investment project management.

Task 20: Provide effective PIPP Training Program courses (course materials and structure of training program from Rounds 1 and 2 are reviewed, revised, and contextualized into Azerbaijani case studies).

Output: (a) Incorporate technical needs and requests of the LMs and budget organizations. Documentation of all PIPP Training Program per PIPP Manual procedures, (b) Workshops and seminars on preparation and management of public investment projects, (c) Technical courses (in Turkey) on investment and economic policy, sector development planning, and capital-budget formulation for technical staff in central Government bodies, MOED, MOF, and the selected LMs, (d) Advisory and on-the-job training for the MOED, MOF and LMs. The staff use their new skills in their work towards increased effectiveness of public resources.

Timeframe: (a) Q4/06 thru end-Project, (b) Q4/06 thru end-Project, (c) Q4/06 thru end-Project, (d) Q4/06 thru end-Project.

Task 21: Build up the capacity of educational institutions to sustain in the long-term the dissemination of knowledge and information on PIPP and related issues.

Outputs: (a) Implement training of trainers (TOT) program to build local training institute's capacity (CER). TOTs will contribute ever more and take larger responsibility in the PIPP Training Programs and other PIPP-related courses, (b) Continue building training database and library on presentation materials, (c) Training Program feedback, monitoring and evaluation. Application of evaluations in training program designs.

Timeframe: (a) Q4/06 thru end-Project, (b) Q3/06 thru end-Project, (c) Q4/06 thru end-Project.



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Attachment 10.

PUBLIC INVESTMENT POLICY PROJECT

Annual Performance Monitoring Plan

Period: September 2006 – December 2007

SEPTEMBER 2006

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

Annual Performance Monitoring Plan

Period: September 2006 – December 2007

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

PUBLIC INVESTMENT POLICY PROJECT

THE PERFORMANCE MONITORING PLAN FOR THE PROJECT

ACTIVITY FOR YEARS 2006-2007

Purpose

As a part of its Work Plan, the PIP project has identified four Aggregate Performance Indicators (API) to measure the progress made towards its main objective: to help the GOAZ strengthen its institutional and technical capacity to formulate a sound public investment policy with an efficient investment program.

Project Indicators

The APIs, as shown below, purport to represent the progress made in the implementation of one of the four pillars of the PIPE Project:

API 1: Improved capacity in long-term development planning and investment policy formulation, both at the national and sector level.

API 2: Improved capital budgeting as an effective tool for macroeconomic management, development planning, and efficient resource use.

API 3: Improved investment project preparation, appraisal and monitoring.

API 4: Increased knowledge and proficiency of government officials involved in the design and implementation of the public investment policy and program.

All four APIs are qualitative; hence, it is difficult to measure them. The corresponding components of the PIPE Work Plan, however, consist of 23 specific tasks, also each with several concrete and easily identifiable outputs. Considering the need to have a limited number of indicators for effective monitoring and evaluation, only one or two of all outputs relating to a particular API have been selected as Progress Indicators (PIs, 19 altogether) to represent the progress made in the corresponding pillar in a given quarter. In this context, the present PIPP's Annual Performance Monitoring Plan (PMP) gives all APIs and PIs by quarter for the September 1, 2006 – December 31, 2007 period.

The PIP Project was also pleased to prepare progress indicators for the overall PIP activity which is projected to last through at least Year 2009 to ensure full-fledged success with implementation of effective and efficient Public Investment Planning and Programming in Azerbaijan. These indicators provide a "bigger picture" of the necessary outcomes and performance measures that GOAZ needs to achieve to make its PIP Policy and Programming efficient, based on sound economic rationale and sector development priorities, as well as budget limitations.

Each API is related to the big picture – USAID's relevant strategic objectives and intermediate results, namely: SO 1.3 - Economic Growth (specifically, IR 1.3.1 – Improved Economic Policy Planning Governance and Regulatory Reform, IR 1.3.1.3 – Improved Efficiency and Effectiveness of Policy Implementation); and SO 2 – Democracy and Governance (specifically, 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). The PIP Project staff will evaluate the quarterly

progress toward the Project's goals in terms of the Performance Monitoring Plan and will report on this in each Quarterly Progress Report.

Limitations of the Contractor's Responsibilities

The PIPE Project (1) defines the specific results it aims to achieve during the implementation of the task order, and (2) shows how these results lead to specific capacity improvements for the formulation of sound public investment policies and programs in support of USAID's SO 1.3 and SO 2. The progress towards the fulfillment of the Task Order objectives is to be assured by the Performance Monitoring Plan (PMP). In this connection, however, it is in order to make two reservations as follows:

1. During implementation, as a result of changing circumstances, the specific activities/tasks may need to be adjusted, resources realigned, and planned results/outputs replaced, revised or dropped in consultation with USAID and the PIP prime counterpart organizations (MOED, MOF, and selected line ministries).
2. Both the actual delivery of policy/reform results and the timeframe in which they are scheduled for delivery are the responsibility of the host government institutions – PIP Project counterparts. The contractual obligations of the contractor, however competent and tactful, are deliverable only if the Government of Azerbaijan shows adequate political commitment to implement the reforms that generally go against personal interests of some key members of the existing "establishment".

Reporting

The Aggregate Performance and specific Progress Indicators for the period of September 2006 – December 2007 are presented in the attached chart. Progress made toward the aforementioned programmatic objectives and tasks will be monitored and evaluated on a quarterly basis and submitted to USAID as a part of the Quarterly Performance Report, which is due 30 days after the close of the reporting period.

USAID SO 1.3 -- Economic Growth, IR:1.3.1.3. -- Improved Efficiency and Effectiveness of Policy Implementation

Period: Q3 2006 - Q4 2007

Description	Benchmarks (X)						
	Baseline: Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Key stakeholder organizations	Ministry of Economic Development, line ministries, Ministry of Finance, Cabinet of Ministers, President's Administration, Parliament, NGOs, other stakeholders						
Aggregate Performance Indicator 1.	Improved capacity of GOAZ in the areas of long-term national and sector development, and investment policy planning						
Counterpart organizations' capacity indicator	Improved capacity for long-term national and sector development objectives, strategies and investment policies for medium-term planning and budgeting purposes at both macro and sector level.						
Progress indicators							
PIPP Input	1.1. The Manual for Public Investment Policy and Project Management (PIPP Manual) produced and submitted to GOAZ for comments and approval (WP Task A.1.1.a.) .		X	X			
GOAZ output	GOAZ approves the PIPP Manual and the PIP Project further assists with preparation of the necessary legislature in support of the PIPP Reform.				X	X	
PIPP Input	1.2. Draft organizational responsibilities on the procedures for coordinating the technical support work and services for the High Planning Policy Committee (HPPC) functions produced and submitted for GOAZ for comments and approval (WP Task A.1.2.)				X		
GOAZ output	GOAZ establishes procedures for establishing of HPPC on the basis of the existing executive authorities (e.g. COM) or as a new organ					X	X
PIPP Input	1.3. Conducted a Functional and Institutional Review of the MOED with special emphases on enhancing capacity in macroeconomic policy making, investment policy determination and PIP management. The appraisal document along with recommendations submitted for MOED acceptance and action (WP Task A.1.2.b.).			X - Initial Draft	X - Final		
GOAZ output	MOED establishes plans to reorganize its functions to better address macroeconomic policy making, investment policy determination and PIP management					X	X
PIPP Input	1.4. Draft "Cabinet Decree on Instructions for Planning and Budgeting over 2008-11 as a joint SPPRED/RDP/Budget/PIP Call Circular, including indicative sectoral expenditure ceilings prepared. The document submitted for the GOAZ consideration and approval (WP Task A.1.3.b.).			X			
GOAZ output	Joint 2007-10 SPPRED/RDP/Budget/PIP Call Circular, including indicative sectoral expenditure ceilings prepared and issued					X	X
PIPP Input	1.6. A macroeconomic and fiscal database and library prepared and is operational at MOED (WP Task A.1.3.d.).					X	
GOAZ output	MOED benefits from the macroeconomic and fiscal database and library for macroeconomic and sectoral planning work and PIP formulation						X
Aggregate Performance Indicator 2.	Improved capital budgeting formulation						
Counterpart organizations' capacity indicator	Improved Public Sector Capital Budget Formulation (PIP component) resulting from sound macroeconomic planning, sector development planning and MTEF						
Progress indicators							

		Benchmarks (X)					
PIPP Input	2.1. Conducted a series of educational seminars on PIPP Manual Provisions at MOED, MOF and LMs with the objective for gradual implementation of its provisions (WP Task B.1.6.a).				X	X	X
GOAZ output	Authorities in the counterpart agencies (MOED, MOF, LM, CoM) recognize importance of sound PIPP planning and management and become proficient in topics of PIPP Manual.						
PIPP Input	2.2. PIP Project identified the required organizational and procedural rules for coordination of work in review and evaluations of SDPs (WP task B.9.a).				X	X	
GOAZ output	Authorities in the cooperating LMs become proficient in preparation of PIP program, project concept papers and pre-feasibility studies						
PIPP Input	2.3. The PIP 2007-2010 process and Call Circular format were appraised with view to increase the impact of Call Circular on the PIP 2008-2011 and with reference to alternative public investment strategies and policies for Azerbaijan (WP Task B.9.b).				X	X	
GOAZ output	Authorities at MOED and MOF as well as LMs realize shortcomings of the past PIP Call Circular and cooperate to improve the next year's Call Circular						
PIPP Input	2.4. A Technical Note on "Prioritization in SPDs and of Projects" was prepared and discussed with GOAZ (WP Task B.9.d).						X
GOAZ output	Authorities in cooperating LMs improve thir sectoral PIP programs and projects' preparation						
PIPP Input	2.5. Evaluated sector plans and investment programs for FY2008-11 for the selected LMs with respect to linking programming and spending between SPPRSD-SDP-Budget (WP Task B.11.b).					X	
GOAZ output	Selected LMs investment programs and projects improved in FY 2008-11 through adjustments and corrections per PIP Project comments						
PIPP Input	2.6. Proposals for improvement in the current practice of recurrent costs estimates of investment projects in PIP drafted and discussed with GOAZ (WP Task B.12.b).					X	X
GOAZ output	The impact of reccurent expenditures from the State Budget becomes considered and evaluated as a part of PIP project pre-feasibility study						
Aggregate Performance Indicator 3. Improved investment project preparation, appraisal and monitoring							
Counterpart organizations' capacity indicator	Increased professional capacity of the staff of the cooperating GOAZ organizations to prepare and evaluate public investment projects.						
Progress indicators							
PIPP Input	3.1. A prototype set of "National Economic Parameters" (shadow or accounting prices) to be used for social and economic analysis of public capital spending programs and projects developed for economic impact analysis and feasibility studies (WP Task C.15.c).				X	X	X
GOAZ output	GOAZ jointly participates in the development of shadow/accounting prices, establishes standardized commodities' economic values and requires their use in PIP project feasibility studies. Experts from the Azerbaijan Center of Economic Reforms become fully involved in shadow/accounting prices reserach works.						X
PIPP Input	3.2. MOED is provided with assistance with definition of qualifications for staff recruitment for improved PIP process (WP Task C.15.d).				X	X	X
GOAZ output	MOED introduces ne recruitment practices hence involving higly-qualified professionals in public service work for PIP preparation and management						X
PIPP Input	3.3. Promote the necessary awareness and recognition at the line Minister/Deputy Minister level of the importance of involving grassroots and independent experts in development of social, economic and financial criteria to the preparation of its PIP (WP Task C.17.a).					X	X

		Benchmarks (X)						
GOAZ output	GOAZ becomes more transparent and accountable for the results of PIP program and reports to the society. Grassroots and independent experts are encouraged to participate in GOAZ economic planning works.						X	X
Aggregate Performance Indicator 4.	Increased proficiency and knowledge of GOAZ counterpart organizations in public investment policy and efficiency							
Counterpart organizations' capacity indicator	Increased professional capacity and skills of the staff of the cooperating GOAZ organizations to prepare and evaluate public investment projects.							
Progress indicators								
PIPP Input	4.1. Organized study tours to countries with PIPP sound planning and management (Turkey, Norway and Kazakhstan) for high-level staff in central Government bodies, MOED, MOF, and the selected line ministries (WP Task D.20.c).		X		X	X		
GOAZ output	GOAZ executives learned of the international experience in sound PIPP planning and management and promote PIP Reform in Azerbaijan					X	X	X
PIPP Input	4.2. Provide effective PIPP Training Program courses. The course materials and structure of training program from Rounds 1 and 2 are reviewed, revised, and contextualized into Azerbaijani case studies (WP Task D.20.a, b, d; Task D.21.b).			X		X	X	
GOAZ output	Number of employees involved in PIP formal and on-the-job Training Program. Indicator: cumulative number of GOAZ employees directly involved.	84		140		190		240
PIPP Input	4.3. The training of trainers (TOT) program to build local training institute's capacity (CER) was conducted with an objective to prepare cadre of experts to conduct trainings in Integrated Project Analysis (WP Task D.21.a).				X	X	X	X
GOAZ output	Experts from the Azerbaijan Center of Economic Reforms become fully capable to conduct follow-on training program in Integrated Project Analysis			X				
PIPP Input	4.4. The PIP Project specialists prepared Azerbaijan-specific case studies for productive and social sectors to be used for operational (PIP preparations) and educational purposes (WP Task D.21.b).				X		X	
GOAZ output	LMs and training participants significantly benefit from Azerbaijan PIP-specific case studies in project preparation and leaning of PIP preparation sequence					X	X	X

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Attachment 11.

PUBLIC INVESTMENT POLICY PROJECT

PIP Activity-Related Results Indicators

USAID Program Area 1: Macroeconomic Foundation for Growth
Program Element 1.1: Fiscal Policy
Program Sub-Element 1.1.2: Expenditure Structure and Management

SEPTEMBER 2006

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

PIP Activity-Related Results Indicators

**USAID Program Area 1: Macroeconomic Foundation for
Growth Program Element 1.1: Fiscal Policy
Program Sub-Element 1.1.2: Expenditure**

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PIP PROJECT-RELATED SUB-ACTIVITY RESULTS INDICATORS

Background

In light of recent U.S. Government initiatives to make its foreign assistance policy effective and efficient a great deal of attention will be rendered toward unification of Performance Indicators and Benchmarks to measure progress in achieving overarching USG foreign assistance goal to 'Helping to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system.' (quote: USAID website).

The new monitoring and evaluation frameworks will have a purpose to appraise success per the established Program Elements and Sub-Elements and develop country specific assistance strategies and annual country-specific assistance Operational Plans.

Responding to the growing demand for programmatic outcomes (benefit) predictability and accountability on the part of the implementing partner, DAI/PIPP designed the overall sub-activity results' profile.

Summary of Implementing Mechanism Narrative

The Implementing Mechanism, Contract GEG-I-00-00-00001-00, the Public Investment Policy (PIP) Project, is implemented by the Development Alternatives, Inc. (DAI). This is not a new award and in FY07 DAI plans to advance its technical assistance to the Government of Azerbaijan (GOAZ) in improving (i) long-term national and sector development objectives, strategies and investment policies; b) improved public sector budget formulation; c) investment project preparation, appraisal and monitoring; and d) proficiency and knowledge of the staff of GOAZ counterpart organizations in public investment policy and efficiency.

The PIP Project experts will aide to GOAZ efforts to harmonize the nation's macroeconomic objectives and sector development plans. For this purpose it is critical to help establish an economic sub-cabinet – the High Policy and Planning Council – to set macroeconomic goals, national development objectives, and sector and administrative unit targets and resource envelopes. This will help to derive a common denominator for the development of the State Program for Poverty Reduction and Sustainable Development, the State Budget, the Medium-Term Expenditure Framework, and the Public Investment Program.

Building institutional capacity in the central economic ministries and also in the line ministries is of a paramount importance and will be addressed to effectively and efficiently plan and manage its PIP portfolio. Finally, GOAZ plans, with the PIP Project assistance, to employ effective PIP rules and regulations and enforce preparation of the Public Investment Policy and Programs to significantly revitalize its non-oil sectors and significantly improve standards of living.

Standards for Performance Indicators and selection rationale for the PIP Project technical area

Effective performance indicators (as listed in the ADS 203.3.6.5, pp.28-29) characterize them as *direct, objective, practical* and *adequate*. The PIP Project overarching goal is to help Azerbaijan Government to develop and implement effective and efficient mechanisms to govern long-term development and policy planning, capital budgeting and investment project preparation. DAI/PIPP implements its activities through (a) technical assistance in

institutional capacity-building and developing necessary legislative, methodological and operational documentation for sound macro- and subsequent sector planning and investment programming within finite public expenditures; and (b) professional training in the above areas as well as topics of Integrated Project (Cost-benefit) Analysis. As the activities do not generate results in a form of quantitative outputs, the indicators can not be quantified. However, recognizing importance of at least relative quantification, the PIP Project developed a system of benchmarks using relative weights of key constituent elements to the overall total requirements (100 points) needed for sound Public Investment Policy and Programming in Azerbaijan.

The Aggregate Activity Outcome Indicator is as follows: Azerbaijan employs modern techniques for Public Investment Policy and Programming for effective and efficient utilization of limited budget resources for economic growth and social welfare.

The DAI/PIP Project identified five separate, yet interrelated Performance Indicators of equal importance (20 points each) to measure progress against evidence (approved legislation, GOAZ Decrees, operating documentation and instructions) necessary for implementation of the PIP Reform agenda:

- PI1. The necessary procedures for the formulation of public investment policies and public investment program are established (20 points)
- PI2. State economic planning and investment programming capacity is improved and harmonized with the nation's development agenda (20 points)
- PI3. Rules and regulations governing PIPP put in place (20 points)
- PI4. Public Investment Program is performance-based and is being monitored for results, effectiveness and efficiency quarterly and annually (20 points)
- PI5. Public executives are proficient to prepare and evaluate PIP program and projects applying modern cost-benefit analysis principles (20 points).

To measure progress in achieving each PI the PIP Project developed underlying requirements-benchmarks of intermediate results. For convenience, most critical benchmarks were selected and awarded with equal importance value-weight (4 per a benchmark).

Hence, monitoring and evaluation will become a straightforward task. An analyst will require a) professional judgments and b) evidence (supporting documentation) in appraising progress against the defined benchmarks. The cumulative total achieved will be compared to the grand number points required (100).

The proposed framework envisages 90% accomplishment in PIP Reform, under an optimistic scenario, assuming that GOAZ has the political will to make necessary changes, approve effective legislation and acts upon them. GOAZ's failure to adapt the necessary measures in time will present delays in achieving the desired programmatic outcomes. In this respect, it will be important for USG to also provide advocacy and aide to the PIP Project staff' efforts in implementation by the host government the PIPP-recommended actions.

OUTCOME INDICATORS FOR PROGRAM AREA 1: MACROECONOMIC FOUNDATION FOR GROWTH

ACTIVITY: FISCAL POLICY; PROGRAM SUB-ELEMENT 1.1.2 EXPENDITURE STRUCTURE AND MANAGEMENT

IMPROVED PUBLIC INVESTMENT POLICY AND PROGRAMMING IN AZERBAIJAN

Aggregate Activity Outcome Indicator: Azerbaijan employs modern techniques for Public Investment Policy and Programming for effective and efficient unitization of limited budget resources for economic growth, infrastructure development, and social welfare

Intermediate Activity Outcome Indicators		Relative weight	Baseline 2005	2006 Planned	2007 Planned	2008 Planned	2009 Planned
AI.1	The necessary procedures for the formulation of public investment policies and public investment program are established						
1.1.	MOED, MOF and NBA use economic (WB RMSM-X) and financial (IMF Financial Programming) impact models in development of appropriate medium-term macroeconomic and sector development framework	4	0	1	2	3	4
2006	<i>RMSM-X training conducted in Moscow (WB-organized) and work for RMSM-X continues for data for Azerbaijan</i>						
1.2.	Budget MTEF is established and guides sector medium-term development programming as well as establishes PIP expenditure ceilings based on national development agenda	4	0	1	2	3	4
1.3.	The High Policy Planning Council (Economic Sub-Cabinet) is established, among others, to guide and oversee economic consistency and financial programming work to determine the country's macroeconomic and sectoral development objectives and strategies	4	0	1	1	2	2
1.4.	Joint Call Circular (SPPRS/SDSEDR/SSDP/Budget/PIP) issued by the Cabinet of Ministers by mid-April annually to guide all agencies in their planning, investment programming, and budgeting work over the medium-term (4 years) period	4	0	1	2	2	3
2006	<i>Interim new format of PIP Call Circular was issued by MOED for FY2007-10 with a requirement to undertake a more profound project preparation involving cost-benefit and cost-effectiveness analysis</i>						
1.5.	GOAZ sets up a unified process for preparation of the Joint Call Circular (SPPRS/SDSEDR/SSDP/Budget/PIP) which is followed by all concerned parties	4	0	1	1	2	3
2006	<i>MOED and MOF realized the need for JCC consistent with macroeconomic context and have agreed to issue the JCC beginning FY2008-11</i>						
	Subtotal	20	0	5	8	12	16
AI.2	State economic planning and investment programming capacity is improved and harmonized with the nation's development agenda						
2.1.	Central economic ministries, in consultation with the Cabinet of Ministers and sector ministries, jointly work and prepare documents that will govern the nation's economic planning, investment programming, and budgeting	4	0	1	2	3	3
2.2.	Sector ministries prepare strategic (10-15 years) development plans with clear formulation of the sector's goals and objectives in the framework of the nation's socio-economic development and in full harmony with the medium-term State Budget and PIP		0	1	2	3	3
2.3.	Public investment projects, prepared by line ministries, provide the project pre-feasibility studies for their subsequent submission and appraisal by MOED and MOF	4	0	1	3	4	4
2.4.	Public Investment Program lists sector projects that pass cost-benefit and cost-effectiveness analysis verification and expected to yield the highest socio-economic returns for the economy and society (shadow prices are utilized in project analysis)	4	0	1	2	3	4
2.5.	Azerbaijan community, NGOs, independent experts and stakeholders actively participate in discussions on and provide recommendations for economic policy works and PIP content	4	0	1	1	2	3
2006	<i>GOAZ-cooperating LMs agreed with the recommendations from the PIP Project and assigned staff to address the issues identified</i>						
	Subtotal	16	0	5	10	15	17

AI.3.	Rules and regulations governing PIPP put in place						
3.1.	GOAZ approved the PIPP Manual and calls for preparation of the PIPP regulation and other acts as appropriate	4	0	1	3	4	4
2006	<i>PIPP manual was produced and submitted for approval. MOED endorsed the document</i>						
3.2.	MOED, MOF and NBA initiate necessary amendments to the Budget System Law and other high governing legislature in support for the new PIPP	4	0	1	3	4	4
2006	<i>MOED and MOF realized the need for JCC and agreed to cooperate in preparation of recommendation to amend the Budget System Law. NBA supports the effort as well.</i>						
3.3.	Regulations (i.e., PIP Operating Instructions) governing preparation of public investment projects by line ministries are developed, approved and enforced	4	0	1	2	4	4
3.4.	Rules and procedures for project integrated analysis (from economic, financial, technical, social, environment, distributional, other) points of view adopted and mandatorily used in PIP preparation	4	0	1	2	4	4
3.5.	LMs follow the unified format for PIP preparation, validation and submission	4	0	2	3	4	4
2006	<i>Starting 2006 LMs are mandated to prepare PIP projects' justification in a new, interim format</i>						
	Subtotal	20	0	6	13	20	20
AI.4.	PIP program is performance-based and is being monitored for results, effectiveness and efficiency quarterly and annually						
4.1.	GOAZ defines Standards of Quality for goods and services for the nation and the Results Framework to be achieved over time	4	0	0	0	1	3
4.2.	LMs sector Performance Indicators established, consistent with the Results Framework	4	0	0	0	1	2
4.3.	Performance measures and indicators established for development activities (incl. PIP programs)	4	0	0	1	2	3
4.4.	Monitoring and evaluation techniques developed and used by all LMs	4	0	0	0	1	2
4.5.	PIP database is used for management, monitoring and evaluation purposes	4	0	1	2	3	4
	Subtotal	20	0	1	3	8	14
AI.5.	Public executives are proficient to prepare and evaluate PIP program and projects applying modern cost-benefit analysis principles						
5.1.	The staff of LMs, in charge for PIP, become proficient in project preparation using benefit-cost analysis; the staff of MOED, MOF and COM become proficient in appraising and compilation of annual PIP Program and in MTBF	4	1	1	2	3	4
2005-07	<i>The number of GOAZ professionals trained in subjects of project analysis to design and manage PIP programs and projects (cumulative). 2005- 84; 2006 - 140; 2007 - 190; 2008 - 240 public servants</i>						
2005-07	<i>The number of GOAZ professionals trained in subjects of integration of PIP budgeting and planning, PIP Call Circular preparation, and budget transparency and public involvement. 2005 - 120; 2006 - 250; 2007 - 400 public servants.</i>						
5.2.	Specilized PIP Development and Monitoring Units (in charge for PIP Preparation, Implementation, and Monitoring) are established in line ministries	4	0	1	2	3	4
5.3.	Shadow/economic prices are mandatorily used for economic analysis in determination of a project's economic effect and cross-sectoral linkages	4	0	1	1	2	3
2006	<i>TOR for the joint work on shadow prices was prepared</i>						
5.4.	GOAZ maintains a fully operational Training Unit in providing formal training as well as refreshment courses in Integrated Project Analysis, RMSM-X and Financial programming	4	0	1	2	3	4
2006-07	<i>Azerbaijan Center of Economic Reform becomes fully capable to organize and deliver training courses on Integrate Project Analysis and serve as a reference center for PIP project analysis</i>					3	4
5.5.	LMs prepare and use pro forma sector-specific case studies for preparation of PIP projects	4	0	2	4	4	4
	Subtotal	20	1	6	11	18	23
	Total of 100 required:	1	23	45	73	90	

Attachment 12.

Azerbaijan PIP Project STTA Needs in 2007				
#	Task Objective	Work Plan Tasks #	Timing	Notes
Technical Assistance in institutional capacity-building: Work Plan Components A, B and C				
1	Help the MOED to develop proposals in instructing budget organizations in their sector planning and investment budgeting work for the coming medium-term expenditure framework, including the determination of the set of national priorities and coordinate with other agencies to build a MTMF. This will be ongoing work by LTTA. Especially the setting up a set of national development priorities that the President/COM can elaborate to guide the SEDP.	A.1-3; C.19 Contributor: TBD International Consultant	January-April 2007	Peter Fairman, a potential STTA, was engaged for the period. Effort to line up an instructor through the IMF is delayed. The WB is offering help to provide someone on RMSM starting in January. Details to be sorted after Dec. WB mission. COP will contact Mr. Peter Fairman, the connoisseur in this area, to see his availability for the assignment
2	Follow up: A Functional and Institutional Review of the MOED with special emphases on enhancing capacity in macroeconomic policy making, investment policy determination and PIP management. The follow-up is crucially conditional on the approval of the MOED Charter. All current adjustments to staff and jobs are essentially frozen.	A 1.2.b Contributor: TBD	Q1 2007	Pursuant to MOED additional request for follow up consultations. Mark Gallagher may be potentially interested in taking up the assignment.
3	Assistance in develop proposals in instructing budget organizations in their sector planning and investment budgeting work for the coming medium-term expenditure framework, based on the national priorities. Prepare a Technical Note on "Indicative Sector Spending Ceilings" and discuss it with the GOAZ officials.	A.3. Contributor: TBD International Consultant	Q1-2 2007	Priority task
4	Help increase the capacity of staff of sector divisions of MOED to review and evaluate the Line Agencies' sector development plans and sector programs/projects: (a) On-the-job training through review of the LM sector plans, programs, and PIP proposals jointly by the PIP Project experts and MOED staff. (b) Identify the required organizational and procedural rules for coordination of work in review and evaluations of SDPs. These will be ongoing work by LTTA in coordination with PIP Project experts. Help strengthen the capacity of line ministries to analyze recurrent expenditures and their implications of their capital spending proposals. This can be good specific technical STTA work especially when folded with LM work in #5.	B.8-10, 12 Contributor: a number of TBD International Sector Experts	Throughout the Project duration, beginning Q1 2007	Sector Experts in areas of strategic management, long- and medium-term development planning for the following (1) IT and Communication Infrastructure; (2) Agriculture; (3) Irrigation; (4) Health; (5) Transportation; (6) Energy (oil and gas); (7) Regional development; (8) Municipal Communal services.

5	Help improve the cooperation between the MOED and MOF on the overall capital budget (i.e., PIP and non-PIP capital expenditure) formulation within the existing budgeting process: (a) Identify the existing channels and procedures of cooperation between the MOED and MOF on the overall formulation of capital spending during the budget cycle. This is ongoing work by LTTA. In a possible scenario, we may cooperate closely with the Treasury Advisor, L. Decker and bring about a coordinated call circulars and some improvement to the PIP 2008-2011 schedule, negotiations and transparency; (b) Improvement in the capacity of MOED and MOF staff to incorporate more realistic recurrent expenditures in capital budget formulation; This work can be folded into a mutual task with #4. The dissemination of technical content can be GOAZ-wide (MOED, MOF, LMs); and (c) The relevant staff of the MOED and MOF works closely on capital budgeting process in the draft 2008 budget. Help the MOED to work with the MOF in developing the necessary guidelines and instructions for the line agencies to use realistic unit costs and a good system of user fees in proposed projects.	B.10, C.16		
		Contributor: TBD International Senior Budget Policy Consultant	Q1-2 2007	Expected output: the relevant staff of the MOED and MOF works closely on capital budgeting process in the draft 2008 budget. Work organized in support for determination of realistic cost structure and transition from the 1991 inflated prices to modern cost-based expenditure projection.
6	Help the relevant departments/divisions of MOED and MOF to improve their technical capacity for evaluating social, economic and financial analysis of public capital spending programs and projects. Provide methodological and train the staff of the Azerbaijan Center of Economic Reforms in development a prototype set of "National Economic Parameters" (shadow or accounting prices) to be used for social and economic analysis of public capital spending programs and projects. On-the-job training of MOED and MOF staff by joining them in project appraisal through social, economic and financial analysis. Help the selected line ministries improve their technical capacity for social, economic and financial analysis of public capital spending programs and projects by using the set of National Parameters, which were developed jointly by the MOED and MOF.	C.15,b,c; C.18		
		Contributor: TBD International Senior Budget Consultants	Q1-3 2007	Glenn Jenkins and Mustafa Besim of the Cyprus University submitted PIPP with the draft SOW for review and comments. The proposed scope largely suggests producing 5 scientific papers on various cost variables for non/tradable goods, and produce the relevant CD. The PIP Project objective is, rather, to shepherd CER on the research methodology, develop in jointly, and train the assigned cadre in the use of the parameters in the economic part of Project Integrated (cost-benefit) Analysis.
Component D: Training				
7	Provide effective PIPP Training Program courses (course materials and structure of training program from Rounds 1 and 2 are reviewed, revised, and contextualized into Azerbaijani case studies).	D.20		
		Contributor: TBD; further involvement of Dr. Mete Durdag is requested	Q2 2007, Q4 2007	DAI/HO is requested to discuss and plan further engagement of Dr. Mete Durdag to design and help deliver the PIP-tailored Training Program for Rounds 5-8 in Integrated Project (cost-benefit) analysis practicing major cases from productive and social sectors. CER and PIPP staff will be involved in training co-delivery and preparation of major case studies.
8	Build up the capacity of educational institutions to sustain in the long-term the dissemination of knowledge and information on PIPP and related issues. Implement training of trainers (TOT) program to build local training institute's capacity (CER). TOTs will contribute ever more and take larger responsibility in the PIPP Training Programs and other PIPP-related courses.	D.21.		
		Implementer: institutional subcontractor: TRG (Patricia Garcia and Fred Rosenzweig)	Quarterly, per the TRG Work Program	TRG requires to develop, jointly with the PIP Project staff, the Work Program for assistance to CER in 2007, and discuss/approve with USAID CTO to plan and expedite travel approvals.

**MATERIALS IN REFERENCE TO THE DAI/PIPP-CER RIBBON CUTTING
CEREMONY ON DECEMBER 19, 2007**



**Embassy of the United States of America
Office of Public Affairs
Baku, Azerbaijan**



USAID
FROM THE AMERICAN PEOPLE

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MEDIA ADVISORY

December 19, 2006

U.S. Public Investment Program to Cooperate with the Center of Economic Reforms

The Public Investment Policy (PIP) Project, supported by the U. S. Agency for International Development (USAID) will provide the Center of Economic Reforms (CER), the scientific-research branch of the Ministry of Economic Development, with state-of-art computer hardware, software and visual aid equipment at the CER premises at 88A Zardabi Avenue, Baku on Tuesday, December 19, 2006 at 12.00 p.m. All media representatives are invited to attend this event.

The equipment will be used for economic research as well as to train officials on integrated project analysis, the process whereby projects are validated for inclusion in the State Public Investment Program. The PIP Project is working with the Center of Economic Research to conduct a multi-week training session on project cycle management and integrated cost-benefit analysis.

For more information about the Center of Economic Reform and USAID's Public Investment Policy Project, please visit www.cer.az, www.economy.gov.az and www.usaid.gov. For more information on the event, please contact Ms. Gulsabah Amirova, Public Relations Specialist (012 498-8337).



USAID
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**Public Investment
Policy Project**

USAID's Public Investment Policy Project is a technical assistance project that is contributing to the government of Azerbaijan's making the most efficient use of the country's financial resources. PIPP is providing technical recommendations, and help with implementation, to strengthen the linkages between the development agendas of line ministries and municipalities and Azerbaijan's national development objectives and resource availability, as defined jointly by the Ministry of Economic Development and the Ministry of Finance.



USAID | AZERBAIJAN

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SUCCESS STORY

New technologies for better research

Public Investment Policy (PIP) Project provides Government of Azerbaijan with state-of-art computer

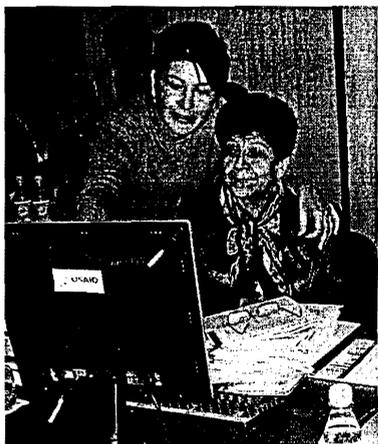


Photo by Gulshabah Amirova

The skills that have made the United States a strong and rich country the United States is committed to sharing with Azerbaijan

—Scott Taylor, USAID Azerbaijan Country Coordinator

December 19, 2006. Baku, Azerbaijan.

USAID-supported Public Investment Policy (PIP) Project is a technical assistance project assisting the Government of Azerbaijan to develop its capacity in long- and medium term investment planning and programming. To significantly contribute to the institutional capacity building in conducting specialized training in Integrated Project (Cost-Benefit) Analysis and economic research works, USAID has provided the Center of Economic Reforms (CER), the scientific-research branch of the Ministry of Economic Development, the state-of-art computer hardware, software and visual aid equipment in the amount of USD 16,000.

The computer equipment will further the CER's institutional capacity in performing its economic research and training functions more effectively. CER is the partner organization to the PIP Project in organizing and conducting multi-week training courses for the Azerbaijan public expenditure analysts. Since February 2006 a total of 171 senior executives and practitioners were involved in workshops and multi-week trainings in Integrated Project (Cost-Benefit) analysis.

The ceremony was attended by Scott Taylor, USAID Country Coordinator; Mete Durdag, PIP Project's Chief of Party; Sevinj Hasanova, Deputy Minister of Economic Development; Namiq Tagiyev, CER Director, the training program participants, experts, and mass media representatives.

The speakers expressed their appreciation of the concrete results from the USAID-rendered technical assistance for better economic policy planning, sectoral development programs formulations and public expenditure management in Azerbaijan.



USAID
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**Public Investment
Policy Project**



**Ministry of Economic Development
of Azerbaijan Republic**

**United States Provides Technical Aid
to the Azerbaijan Center of Economic Reforms
December 19, 2006 at 12.00 p.m.**

AGENDA

- | | | |
|-------------|---|--|
| 12:00-12:15 | Opening remarks
Importance of effective
PIP management for the
growth and prosperity of
Azerbaijani people.
Congratulations with initial
successes in
strengthening the PIP
preparation procedures. | Scott Taylor, Country Coordinator,
USAID/Caucasus –Azerbaijan |
| 12:15-12:25 | Congratulations on
Success;
Prospects and
expectations from the
collaborative work with
the USAID's PIP Project. | Sevinj Hasanova, Deputy Minister
MOED
Namig Tagiyev, Director of CER |
| 12:25-12:35 | Collaborative work with
GoAz in PIP
implementation issues
and importance of the PIP
Training Program. CER is
the partner to PIP Project
in Training Delivery. PIP
Project plans to aide to
create a sustainable
training institution in PIP-
related matters. | Dr. Mete Durdag, PIP Project COP |
| 12:35-12:40 | Ribbon Cutting and
Transfer of the
Equipment. | Scott Taylor, USAID
Sevinj Hasanova, MOED |



USAID
FROM THE AMERICAN PEOPLE

Public Investment Policy Project



**Ministry of Economic Development
of Azerbaijan Republic**

The USAID Public Investment Policy (PIP) Project is a technical assistance development project that will contribute to the government of Azerbaijan's (GOAz) objective of making the most efficient use of the country's financial resources.

To effectively manage the GOAz's public investment program, the GOAz must strengthen its institutional and technical capacity in the areas of long-term planning, capital budget formulation, and project development and management. Uniform Public Investment Policy and Program (PIPP) procedures, which will be prepared by the USAID's PIP Project jointly with its Azerbaijani government counterparts, will need to govern the process for identification and selection of attractive public investment projects. In the context of PIPP preparation, there is a need for systematic and well-coordinated work involving the Ministry of Economic Development and the Ministry of Finance, in preparation for the medium-term macroeconomic framework, the annual consolidated budget, and the public investment program. Line ministries, other functional government organizations, and municipalities need to develop their capacity to prepare and prioritize projects in accordance with national priorities, sector development objectives, and modern norms of economic feasibility. These tasks need to be carried out within a framework of rationalized public investment policy development and programming at both the macro (government-wide) and sector (ministerial) levels.

In this context, the USAID public investment project will provide a bridge linking the development agendas of line ministries and municipalities with Azerbaijan's national development objectives and resource availability, as defined jointly by the Ministry of Economic Development and the Ministry of Finance. The four major components of the USAID public investment project are:

- (1) Determine national and sector development objectives, strategies, investment policies for medium-term planning, and capital budgeting at both the macro- and sector levels, in line with strategic development priorities and programs.
- (2) Evolve the public sector capital budget formulation into a bridge within a medium term budget expenditure framework between development priorities and programs and the consolidated state budget.
- (3) Help strengthen the Government of Azerbaijan's institutional and technical capacity to effectively manage the public investment project cycle (comprising of identification, appraisal, preparation, prioritization, implementation, monitoring and evaluation) in all budgetary organizations and state operating companies.
- (4) Conduct an extensive training program to support the above activities designed and delivered jointly with the most reputable training institutions both from the United States and Azerbaijan.

Implementing these policy objectives within the scope of the USAID Public Investment Policy Project will help the Government of Azerbaijan apply new approaches and instruments for developing sector strategies, capital budgeting and identification, and implementing efficient investment projects with the highest returns both to the economy and the people of Azerbaijan.

Attachment 14.

**PIPP MONTHLY CALENDAR:
PERIOD OCTOBER- DECEMBER 2006**

October 2006

October 02, 2006

1. 10.00 Arif Bakhshaliyev, Head of Trade and Service Policy Division, DEPF, MOED, Mark Gallagher, GA
2. 16.00 Entrepreneurship Dept., MOED:
Zaur Gasimov, Legal Division Head
Faig Abbasov, Head of Entrepreneurship Development Division
Aydin Mammadov, Head of Entrepreneurship Protection Division
Mark Gallagher, GA

October 03, 2006

3. 10.00 Bahram Aliyev, Deputy Minister of Agriculture, MD, AP, SC, HH
4. 11.00 Vagif Rustamov, CER Director, MD, Mark Gallagher, GA
5. 16.00 Corporation of Irrigation and Water Economy JSC:
Rafiq Aslanov, Deputy Chairman
Mammadsadikh Guliyev, Deputy Chairman
MD, AP, HH, SSh
6. 16.00 Arzu Aliyev, Head of Licensing Division, Entrepreneurship Dept., MOED, Mark Gallagher, GA

October 04, 2006

7. 14.30 USAID Outreach Meeting, SI, GA

October 05, 2006

8. 13.00 USAID, Mark Gallagher

October 11, 2006

9. 15.00 ETI, SSh

October 12, 2006

10. 16.00 Deputy Ministers of Economic Development:
Sevinj Hasanova, Mikayil Jabbarov, Niyazi Safarov, MD, Mark Gallagher, GA

October 13, 2006

11. 15.00 Sarhad Kuchukkurt, Country Coordinator, TIKA, MD, SSh

October 17, 2006

12. 11.00 Mammadsadikh Guliyev, Deputy Chairman, Corporation of Irrigation and Water Economy JSC, HH

October 20, 2006

13. 10.00 Shahin Sadigov, Head of DEPF, MOED, SSh

October 30, 2006

14. 15.00 Christos Kostopoulos, Glenn Jenkins, WB, MD, AP, SC

November 2006

November 01, 2006

1. 15.00 Public Participatory Presentation, MOENR, HH, Ilgar Mammadov, NI, SSh

November 02, 2006

2. 10.00 Discussion of the PIP Project's WP and the PIPP Manual: Farid Bakhshiyev, CTO, USAID, MD, AP, SC, HH, NI, SSh

3. 14.15 WLI, AP, SSh

November 06, 2006

4. 15.00 Vagif Rustamov, CER Director, AP, SSh, RA

November 07, 2006

5. 11.00 USAID All-Partners Meeting, MD

6. 15.00 SSDP Presentation, CIWE, HH

November 14, 2006

7. 09.00- 15.00 Training Workshop for Management Group, Round III

November 15, 2006

8. 09.00- 15.00 Training Workshop for Management Group, Round III

November 16, 2006

9. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 20, 2006

10. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 21, 2006

11. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 22, 2006

12. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 23, 2006

13. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 24, 2006

14. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 27, 2006

15. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 28, 2006

16. 09.00- 15.00 Training Workshop for Technical Group, Round III

17. 15.00 Joeril Johansen, 1st Secretary, Embassy of Norway, AP, SSh,
Firuza Hasanova, WLI

18. 16.00 Scott Taylor, USAID Country Coordinator, MD, AP

November 29, 2006

19. 09.00- 15.00 Training Workshop for Technical Group, Round III

November 30, 2006

20. 09.00- 15.00 Training Workshop for Technical Group, Round III

December 2006

December 01, 2006

1. 15.00 Technical Staff Meeting on PIP Project Activities Plan 2006-09 (by AP), MD, SC, HH, SSh, NI, RM

December 04, 2006

2. 09.00- 15.00 Training Workshop for Management Group, Round IV

December 05, 2006

3. 09.00- 15.00 Training Workshop for Management Group, Round IV

December 06, 2006

4. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 07, 2006

5. 09.00- 15.00 Training Workshop for Technical Group, Round IV
6. 16.00 Sevinj Hasanova, Deputy Minister of Economic Development, MD

December 08, 2006

7. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 11, 2006

8. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 12, 2006

9. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 13, 2006

10. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 14, 2006

11. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 15, 2006

12. 09.00- 15.00 Training Workshop for Technical Group, Round IV

13. 15.00 USAID Outreach Meeting, SI, GA

December 18, 2006

14. 09.00- 15.00 Training Workshop for Technical Group, Round IV

December 19, 2006

15. 09.00- 15.00 Training Workshop for Technical Group, Round IV

Abbreviations for PIP Project staff: MD (Mete Durdag), AP (Andrei Parinov), SC (Samim Cilem), HH (Hadji Husseynov), SSh (Sabira Shihaliyeva), NI (Nigar Ismaylova), GA (Gulsabah Amirova), SI (Sabina Ibrahimova), RA (Rena Azimova), RM (Ramil Maharramov).