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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

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**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 manadatorily 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	