

**Comparative Analysis of PI Program Planning and Management
Processes in Azerbaijan and Kazakhstan**

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Abbreviations

COM	– Cabinet of Ministers
IRR	– Internal Rate of Return
IFIs	- International Financial Institutions
LMs	- Line Ministries
MOED	– Ministry of Economic Development
MOF	– Ministry of Finance
MOEBP	– Ministry of Economy and Budget Planning in Kazakhstan
MTMF	– Medium-term Macroeconomic Framework
MTEF	- Medium-term Expenditure Framework
MTFF	- Medium-term Fiscal Framework
NES	- National Employment Strategy
PAD	– Project Appraisal Document
PI	- Public Investment
PIP	– Public Investment Program
PIPP	– Public Investment Policy Project
NPV	– Net Present Value
RDPs	– Regional Development Plans
RBC	- Republican Budget Commission
SDPs	– Sectoral Development Plans
SPPRED	– State Program on Poverty Reduction and Economic Development (PRSP)
SPRSED	– State Program on Regional Socio-Economic Development

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Overview

This document describes current and proposed technical and organizational procedures used for formulation and management of the public investment policy and program in Azerbaijan and compares the current and proposed practices with those in Kazakhstan. It is designed to assist the Government of Azerbaijan to reform the PIP planning and management at the macro, sectoral and project levels through the design and introduction of best practices.

There are several practical reasons for choosing Kazakhstan for comparison of public investment planning processes. 1) The political system of Kazakhstan and Azerbaijan are very similar. Both countries are Presidential Republics with independent legislative and judicial branches. In both countries COM is designed to provide required technical and coordination services and support to Presidents. 2) Economic planning and management structure within the government are more or less similar in both countries. Economic planning and management of public expenditures are divided between the two ministries. In Kazakhstan MOEBP is responsible for economic and budget planning (including medium-term national development strategies, MTFF, PI Program and the annual budget). MOF is responsible for **operational management** of public revenues and expenditures. In Azerbaijan economic and budget planning and management are divided between MOED and MOF¹. COM is designed to coordinate and consolidate economic and budget planning activities, as well as activities of all other line ministries both in Azerbaijan and Kazakhstan. 3) Both countries face similar challenges in translating natural endowments into the long-term sustainable development and in effectively managing significant flow of revenues from the sale of natural resources. These countries also share significant similarity in terms of the status and rate of economic and social development. Both of them are leaders by the rate of economic growth in the CIS region. 4) Kazakhstan has established a comprehensive institutional and regulatory framework for effective planning and management of public investments, which is designed in line with international practices. 5) Similarities in political and economic management processes and achievements in reforming the PIP planning lend Kazakhstan a suitable example to analyze and draw from in reforming the public investment planning process in Azerbaijan.

1. Strategic Macroeconomic Planning

1.1. Current situation in Azerbaijan

1. Public Investment Policy and Program is an indispensable part of effective macroeconomic planning and budgeting functions of the government. The government of Azerbaijan has acknowledged this need early in the public expenditure reform process and emphasized the need for reforming the public investment planning and management process in the SPPRED², Azerbaijan's first national strategic economic development plan signed into effect in 2003. The SPPRED viewed the PIP policy and program as an important policy tool to balance expenditures and revenues, to determine expenditure priorities of the government, to ensure transparency in the

¹ MOED prepares MTMF, national development programs, PI program; MOF prepares MTFF, annual budget and manages implementation of MTFF.

² The government is in the approval process of the new long-term development strategy of the country for 2006-2015, the State Program for Poverty Reduction and Sustainable Development (SPPRS), which will replace SPPRED.

- preparation and approval of public investments and to use public investments to pursue strategic social and economic development goals of the country.³
2. National socio-economic strategies including SPPRED, SPRSED and NES⁴, and MTMF and MTEF altogether form the macroeconomic level of the current planning process of public expenditures and investments. MTMF and MTEF are introduced in 2002 with the adoption of the law on “Budget System” and the regulation on “Formulation and Management of the State Budget”. According to the latter document MTMF should precede the preparation of the medium-term fiscal outlook in the budget preparation cycle and should serve as the foundation for preparation of MTEF.⁵ However, MTEF is poorly formulated, and poorly grounded on MTMF. As such it is not capable of serving as an effective macroeconomic policy instrument. There are also no clear guidelines or rules for the preparation of MTEF as distinct from MTMF.
 3. Translation of policy priorities of the political leadership into public expenditure priorities and public investments usually takes place through a) review and approval of the State Budget and National Socio-Economic Programs by the President and Cabinet of Ministers, b) meetings of the extended Cabinet of Ministers with participation of the President where achievements and effectiveness of socio-economic policies are reported, discussed and evaluated, and c) special Presidential Decrees on different aspects of the Socio-economic Development some landmarks of which include but not limited to the November 24, 2003 Presidential Decree on Measures for the Acceleration of Socio-Economic Development of the Republic of Azerbaijan, the March 30, 2006 Presidential Order on Measures for the Promotion of Investment Activities, and etc.
 4. The medium term development objectives and strategies of the government are communicated to line ministries through the PIP Call Circular, which is separately issued by MoED and includes the list of PIP and inter-sectoral priorities and medium-term macro-economic outlook to enable budget organizations to prepare and submit their public investment projects.
 5. At the macroeconomic level main problems of the current planning practices in preparation of the public investment policy and program are a) poorly formulated macroeconomic goals and strategies in national socio-economic strategies, b) inclusion of sectoral strategies into the SPPRED and SPRSED with little analysis of their relevance to national socio-economic objectives c) lack of technical capacity for preparation of sound macroeconomic and fiscal outlook based on econometric exercises d) the need for capacity development to better synchronize fiscal policies with macroeconomic plans and to translate national strategies into medium-term development plans e) lack of regulations or rules on preparation of national strategies f) lack of sectoral budget ceilings for capital expenditures and g) lack of evaluation practice of MTMF and MTEF for effectiveness that can feed into the improvement of the process.⁶

1.2. What PIP Project Proposes to Azerbaijan (preliminary ideas)

1. PIP project needs to strengthen relevant institutional design and capacity of the Cabinet of Ministers to improve the strategic macro-planning and management in the country. This will enable CoM to better perform its vital functions in terms of ensuring translation of policy priorities of the President into public expenditure and investment priorities through its strategic direction, oversight, review and coordination on economic planning and management, and also more effectively coordinate the macro-planning process with public expenditure policies.

³ Some international organizations criticized SPPRED on the ground that it was a broadly formulated policy paper without regard to resource constraints. However, SPPRED represented the first ever experience of the national government of Azerbaijan in designing a long-term national development strategy and heavily used technical assistance of IFIs.

⁴ The President approved NES in 2005.

⁵ Azerbaijan Republic, *Rules on the Preparation and Execution of the State Budget*, COM, Ordinance # 75, May 24, 2004.

⁶ DAI. *PIPP Work Plan: Sep. 2006- end of 2007*, October 2006. pp. 8-9.

2. The PIP project proposal assigns two fundamental PIP policy related functions to COM a) to provide the President with the solid assessment of the past socio-economic development and enable him to effectively formulate and declare his new medium-term national and sectoral development objectives and b) to review the Public Investment Program of Azerbaijan (draft of which is formulated and submitted by MOED), ensure that it reflects socio-economic development priorities and comprised of investments that will yield the highest returns.

1.3. Strategic Planning in Kazakhstan

1. Key institutions in the strategic planning process of Kazakhstan are the President, COM, MOEBP and the Republican Budget Commission. The President sets and identifies broader contours of the economic and social development of the country. He/she exercises his authority on socio-economic management of the country through the annual address to the people of Kazakhstan, long-term development strategies (i.e. Development Strategy of Kazakhstan till 2030) and national development plans prepared by CoM and approved by the President. Per the Constitution of the country, CoM is the supreme executive organ of the President and designed to provide and coordinate all required technical assistance to the President in the formulation and implementation of national socio-economic strategies of Kazakhstan⁷.
2. RBC (sort of a sub-cabinet) is a high level permanent institution established by the President, members of which include the Prime Minister, ministers and other top government officials (total 19 members). The Budget Law equipped RBC with vital authority in respect to the macroeconomic planning process, and formulation of the annual state budget.⁸ It is designed to review and identify the medium-term fiscal outlook, priorities of the public expenditure policy, sectoral budget ceilings, the list of priority public investments, the list of sectoral development programs, and etc. RBC also reviews and approves medium-term development plans, evaluation reports on implementation of the state budget, the state budget for the next fiscal year, funding requests of government organizations and disagreements between a government organization and MOEBP on funding requests. Many RBC decisions are subject to the review and approval by COM before they reach the President or the Parliament.⁹
3. MOEBP is tasked with the preparation of all economic and budget planning documents including but not limited to the draft state budget, MTF, MTMF, medium term development plans, list of priority PI projects, evaluation report of the state budget and etc.. It should also provide all technical and analytical work to support the work of the President, COM and RBC.
4. The main strategic macro-planning instrument in Kazakhstan are national socio-economic programs prepared by the executive agency or consulting-advisory councils in collaboration with all related government organizations, reviewed by COM and approved by the President. The national socio-economic programs are prepared through top-down planning process. They stand above sectoral and regional programs and they are designed to address large-scale (national) economic, social and other problems. These programs also need to conform with the long-term national priorities determined in the "Development Strategy of Kazakhstan Till the Year 2030", have specific objectives and deadlines and concur with all other national, sectoral and regional programs.¹⁰

⁷ Kazakhstan, Constitution of the Republic of Kazakhstan, August 30, 1995, retrieved from http://en.wikipedia.org/wiki/Constitution_of_Kazakhstan.

⁸ The special Presidential decree regulates activities of RBP.

⁹ Kazakhstan, *The Budget Law of the Republic of Kazakhstan*, Parliament, April 24, 2004, pp. 77-78.

¹⁰ Kazakhstan, *Preparation and Execution of National Programs of the Republic of Kazakhstan*, Presidential Decree, June 2, 2003.

5. The preparation and implementation of the long-term and medium-term national socio-economic programs are regulated by special regulation on "Preparation and Implementation of National Programs of the Republic of Kazakhstan" approved by the Presidential Decree. This regulation determines the structure and the process of the preparation, approval, implementation and evaluation of national programs, and identifies requirements to them.
6. Two other legal documents which regulate the strategic macro-economic planning process in Kazakhstan are the "Budget Law" approved by the parliament and the regulation on "Preparation of Medium-Term Fiscal Policy" approved by the Cabinet of Ministers. The Budget Law of Kazakhstan is very detailed and inclusive. It provides higher level regulatory framework for all public expenditure matters and determines the contours of the public revenue and expenditure policies. The law regulates revenue and expenditure management of the National Fund, which is a rough equivalent of the Azerbaijan Oil Fund, determines the role of the government agencies and Budget Commission in formulation, implementation and monitoring of the budgeting process, identifies the budgeting process, determines in details the process for formulation, prioritization, approval, implementation and monitoring of public investments (which "Azerbaijan's Budget System" Law lacks).¹¹
7. The state budget in Kazakhstan is divided into two parts; current expenditures and capital expenditures.¹² This enables the government to better compile, analyze and monitor public expenditures, to steer public expenditures in line with national development and MTEF priorities, and to manage the state budget as an effective macroeconomic policy instrument.
8. The regulation on "Preparation of Medium-Term Fiscal Policy" broadly determines the preparation process of the medium-term fiscal policy and defines MTEF. The document determines the fiscal and tax policy of the country, sectoral budget ceilings, results of the evaluation of the former budget program, priorities for public expenditures and ways to implement main priorities of national and regional socio-economic development. MOEBP prepares MTEF annually on the basis of the annual message of the President to the people¹³, the Budget Law, Strategic Development Plans, medium-term national programs, and regional and sectoral programs.¹⁴

1.4. Comparative Analysis of Macro-Planning Processes

(to be extended depending on the PIP project proposal for Azerbaijan)

1. The strategic macro-planning processes in Azerbaijan and Kazakhstan substantially differ from each other. The macro-planning process in Kazakhstan has a more detailed and comprehensive regulatory framework. After all, Kazakhstan legally regulates the development of national programs thus ensuring systematization of the process and synchronization of national programs with other planning processes.
2. Additionally, the process in Kazakhstan provides the President with more and better capability to set and renew his/her national socio-economic priorities and translate them into public expenditure and investment priorities, as the regulation on MTEF planning clearly requires that MTEF has to be based upon the President's annual address to the people and MTMF.

¹¹ The document is prepared by an Advisory Council comprised of top economists, Kazakh officials and IFIs' representatives.

¹² Kazakhstan, *Rules on Preparation of the State Budget and Emergency Budgets*, Presidential Decree, July 20, 2004.

¹³ The annual address of the President in Kazakhstan is of programmatic nature. It reflects policy priorities and strategies of the political leadership and according to law forms the basis for medium-term socio-economic planning in the country. The title of the annual address of the President of Kazakhstan in 2005 was "On the way to accelerated economic, social and political modernization" which well summarizes the strategic direction for the country for coming years.

¹⁴ Kazakhstan, *The Medium-term Fiscal Policy for 2005-2007*, COM, Ordinance #918, August 31, 2004. p. 4.

3. Per current processes in Kazakhstan and Azerbaijan, COMs are designed to provide technical and coordination services to Presidents in determining and implementing national socio-economic strategies and PI policies. In both countries, COMs possess authority to review, coordinate and in some cases approve macro-planning documents.
4. The macro-planning process in Azerbaijan lacks an institution similar to RBC specifically designed to review MTMF, MTFF, PI program, and the draft state budget, to address disagreements on capital expenditures between a government organization and MOEBP, to identify budget ceilings and etc. to assist COM with decision-making on macroeconomic planning documents.
5. MOED in Azerbaijan performs similar functions to MOEBP. However, authority and tasks of MOEBP is much broader and includes all aspects of the macroeconomic planning. MOEBP is not only tasked with the preparation of economic planning documents such as MTMF, PI program, drafting national development programs, monitoring national and sectoral development programs, and etc. Its authority extends to all levels of the budget planning process including preparation of MTFF, a draft of the state budget, a Budget (similar to JCC) Circular, evaluation report on effectiveness of public expenditures, and etc. The role of MOF in budget planning in Kazakhstan is limited with the operational management of the budget and development of standards / methodology to ensure effective spending of public expenditures.
6. The fiscal management in Kazakhstan is also better regulated. As distinct from Azerbaijan the preparation of MTFF and its content are legally determined. The budget is divided into current and capital expenditures. Capital expenditures include all public investments regardless of the source of funding. Budget ceilings both for current and capital expenditures are determined and communicated to government organizations to ensure consistency of the budgeting process with national priorities.

2. Sector level of planning

2.1 Current situation in Azerbaijan

1. Currently the preparation and implementation processes of sectoral and regional programs in Azerbaijan are very fragmented and unsystematic. Almost each ministry /sector (education, health, transportation, migration management, and etc) has its one or more sectoral development plans (SDPs). Additionally, acceleration of development in many regions of Azerbaijan is also managed through regional development programs (RDPs), which include measures and investments specifically addressing socio-economic issues in a particular “economic region”¹⁵. Many of these sectoral and regional programs are poorly linked to the strategic development plan and represent the “wish list” of projects. Virtually none of them indicate sources of funding, performance indicators and expected results. Many of these programs are also plagued by poor problem analysis and poorly defined goals and objectives.
2. The structure of SDPs and RDPs varies from one sector and region to another. They lack coordination schemes to ensure effective inter-sectoral collaboration of concerned government agencies to successfully implement SDPs and RDPs. These programs are also poorly linked to other SDPs and RDPs. Public participation in the formulation of SDPs and RDPs are none or little, which doesn't enable them to play an essential role in bottom-up planning process and complement macro-planning processes. SDPs and RDPs list planned measures with no respect to

¹⁵ Economic regions include more than one district. Districts and villages are grouped under a region according to inter-district economic relations and similarity of their socio-economic problems.

budget constraints. The documents of these programs also do not describe approach to monitoring and evaluation of planned activities as well.¹⁶

3. The fragmented nature of sectoral and regional planning process in Azerbaijan is mostly driven by lack of regulations on preparation and management of SDPs and RDPs. The application of two different Call Circulars for the State Budget and PIP program also do not enable government organizations to synchronize their planning and budgeting processes.

2.2. What PIPP Project Proposes to Azerbaijan

1. It is proposed to regulate and systematize the preparation and management of SDPs and RDPs through standard requirements for the structure, goals and objectives, links with strategic development programs, problem analysis, monitoring and evaluation, activities and investments, public participation and performance indicators. Introduction and application of the Joint Call Circular, which would combine the PIP, Budget and SPPRED Call Circulars, would contribute to the synchronization of activities and plans in program budgets and SDPs/RDPs.
2. In this scheme of sectoral planning, government organizations would formulate their annual and medium-term budgets on the basis of their sectoral programs as well as total budget ceilings communicated to them through Joint Call Circular (JCC). JCC would also address the fragmentation of the PI program as it would collect and compile information on all capital expenditures. The regulation on SDP/RDP preparation would make sure that sectoral programs are well grounded on strategic programs.
3. The proposed regulatory framework for SDPs/RDPs would attach the preparation and approval process of SDPs/RDPs to a timeline in order to achieve the synchronization with the budgeting process. Successful economic planning and management in Azerbaijan would require translation of medium-term plans of the country into annual action plans through strategically designed PI program, annual budgets and revenue and expenditure directions.¹⁷

2.3. Sectoral and Regional Planning in Kazakhstan

1. Sectoral and regional planning process in Kazakhstan is regulated by the special regulation on “Preparation and Implementation of Sectoral and Regional Programs” of the Cabinet of Ministers. This regulation sets standard requirements for all sectoral and regional programs in terms of structure, design and approval process, goals and objectives, performance indicators, and monitoring and evaluation process. The same regulation also requires that sectoral and regional programs are prepared on the basis of long-term development strategies of the country, and MTEF and budgetary constraints at the national and local levels.¹⁸
2. Kazakhstan issues only the Budget Call Circular for collecting and compiling required information for budget planning and public investment planning as regulated by the “Budget Law”. Thus in principle it applies the “Joint Call Circular” approach, which pursues better liaison between sectoral and regional planning, Public Investment Program and budgeting processes. The Budget Call Circular is prepared on the basis of unified budget classification, budget expenditure ceilings, medium-term budgets of government organizations, medium-term expenditure framework and national socio-economic development plans, RDPs/SDPs, and the list of priority public investments.¹⁹ Such a sectoral and regional planning system enables Kazakhstan to achieve

¹⁶ DAI, *Draft PI Policy and Program Manual: Appendix 3*, October 2006, Baku, Azerbaijan.

¹⁷ *Ibid.* pp. 10-11.

¹⁸ Kazakhstan, *Rules on Preparation and Implementation of SDPs/RDPs in the Republic of Kazakhstan*, COM, Ordinance # 231, February 26, 2004.

¹⁹ Kazakhstan, *Rules on Preparation of the State Budget and Emergency Budgets*, Presidential Decree, July 20, 2004.

better top-down and bottom-up planning, and harmony among national development programs, SDPs/RDPs, MTMF, MTEF and PIP program.

2.4 Comparative Analysis of Sectoral and Regional Planning Processes

1. The proposed planning scheme for sectoral and regional development programs shows great similarity to the existing system in Kazakhstan. The existing regulatory framework in Kazakhstan ensures that all SDPs/RDPs comply with standard procedures and rules in terms of the preparation, approval and implementation processes, structure and conformity with strategic development plans and MTEF. Application of the “Joint Call Circular” principle ensures consistency between the budget and public investment planning and avoids fragmentation that exists in Azerbaijan.

3. Project level planning

3.1. Current situation in Azerbaijan

1. Current system for the analysis, preparation, approval and management of public investment projects is highly fragmented in nature and does not conform to modern best practices. There is no clear project cycle analysis in place and more than one way for an investment project proposal to end up in the Public Investment Program. The trajectory a project proposal follows to get into the PIP program usually takes place through SDPs/RDPs. Government organizations tend to justify inclusion of their investment projects into the Public Investment Program with SDPs/RDPs, which are reviewed by COM and approved by the President. Many of these projects lack comprehensive and systematic project analysis and some go through technical analysis²⁰ only, which is required for receiving funding from the Budget.²¹
2. Investment projects funded or co-funded by international financial institutions/international partnerships are usually the only public investments which undergo rigorous project analysis process. However, shortcoming of these investment projects is that their analysis and appraisal are undertaken by international organizations or international consultants according to their own parameters and strategic direction, which may or may not be in line with those of the government.
3. The investment project analysis/feasibility study process is regulated by COM ordinance on “Assessment, Approval and Re-approval of Construction Processes and Feasibility Studies of Buildings, Equipments and Enterprises” dated back to October 1992. As determined by this ordinance the cost estimation of all current construction projects is computed using 1991 prices, and special coefficients. The latter is annually estimated by the Construction and Architecture Department of the Ministry of Emergencies.
4. The planning and approval of capital expenditures also follows different trajectories depending on the scale and type of public investments. Three different processes are distinguished in the current system: a) Certain capital expenditures approved through the medium-term budgets of government organizations b) Public investment projects approved through the Public Investment Program (PIP) c) Internationally funded or co-funded projects approved by COM and included in PIP²²
 - a) These capital expenditures refer to certain investments with budget classification numbers of 282200 and 310000, which include construction of office and residence buildings, purchase of equipment and vehicles, construction or purchase of agricultural technology, underground assets, purchase and processing of land and etc. Capital expenditures for these

²⁰ Technical analysis is limited to construction and design specifications, location and cost estimations.

²¹ DAI, *PIP Project's Quarterly Performance Review: April –June 2005*, August 2005, Baku, Azerbaijan, p. 10.

²² DAI, *PI Program Preparation and Approval Process*, Technical Note, December 2007, Baku, Azerbaijan, p.1.

- types of investments are sanctioned by MoF and submitted to MoF by government organizations through the Budget Call Circular. The funding for these capital expenditures comes from medium-term budgets of each government organization. MOF, in consultation with MOED, authorizes these capital expenditures on the basis of technical analysis as examined by the Ministry of Emergencies and relevant feasibility studies.
- b) Public investments sanctioned through the PI program are compiled by MOED according to responses of government organizations to the PIP Call Circular. Feasibility studies and justification of the project in terms of its consistency with national and sectoral programs are supposed to accompany all submitted investment proposals. MOED reviews all project submissions and if finds the project analysis and justification reasonable includes them into the draft PIP, which is then sent to COM for review. COM together with the draft State Budget then submits the draft PI program to the Parliament and sanctions the PI program early in the new fiscal year revisiting the content of the PI program by some parameters.
 - c) Public investment projects proposed for funding or co-funding by international financial institutions are examined by the special department of COM and all relevant government organizations for consistency with the existing legislation, national and sectoral development strategies of the country and medium-term fiscal framework. The project proposal with all comments is then submitted to the Office of the Prime Minister for review. If results of the review is positive, then the project proposal is sent to the approval of the President, who provides COM with the authority to sign the loan agreement IFIs. After the signing of the loan agreement, this investment project is sanctioned to get into the PI program.
5. No consistent guidelines or regulations exist for the management, monitoring and evaluation of investment projects excluding those funded or co-funded by international financial institutions. Each line ministry independently determines the management scheme of public investments according to their organizational design, existing administrative and procurement regulations. Monitoring over domestically funded public investments are carried out by MOF and to some extent by MOED. MOF monitors public investments to determine whether budgetary funds are used in full compliance with the laws and regulations. MOED monitoring is limited to tracking the progress of individual projects through government organizations' responses to PIP Call Circulars. The new approved statute gives MOED a monitoring authority over public investments. However, MOED lacks the regulatory framework for exercising this right. In similar lines, no regulatory framework exists for the evaluation of the PIP effectiveness as a program. Externally funded projects are monitored and evaluated according to the guidelines, timeline and parameters of international financial institutions.

3.2. What PIPP Project Proposes to Azerbaijan

1. Introduction and application of the integrated project cycle analysis and solid prioritization criteria for all public investments is required if Azerbaijan wants to ever achieve effective allocation of scarce resources among different competing sectors with varying rates of return and productivity, and to turn resources from areas of low-efficiency and productivity to ones with higher productivity. Therefore, the project cycle analysis, objective selection criteria and integration of all capital expenditures in the Public Investment Program are the three cornerstone changes proposed for reforming the current PI program preparation and management process at the project level in Azerbaijan.
2. Integration of capital expenditures in the PI program would be achieved through application of the Joint Call Circular, which would combine the Budget, SPPRED and PIP Call Circulars and require all government organizations to report all their budget funded capital expenditures. The proposed regulations would also require government organizations to submit the list of the

planned public investments to MOED in order to achieve and improve the medium-term (four-year) planning of the PI program. All planned public investments whether they are in the idea, concept paper, feasibility study and other phases should be included in the list of the planned public investments.²³

3. The proposed integrated project cycle analysis captures and regulates the entire project development trajectory. This trajectory begins with the project idea to address a socio-economic issue and ends in the preparation of the project appraisal document (PAD). Development of the project concept paper by the relevant government organization immediately follows the project idea phase. A government organization submits this concept paper to MOED for review. If MOED approves the concept paper, then relevant government organization begins the feasibility study, which again needs MOED approval to pass to the full-feasibility phase if the project budget is more than the certain pre-defined amount. Upon the completion of the project feasibility study, MOED once more assesses the project and prepares the project appraisal document completing the project analysis phase. The PAD document allows the project to get into the first or second year of the PI Program.
4. The project prioritization phase follows the project analysis phase. Two types of prioritization are proposed for Azerbaijan's public investment process: a) policy based prioritization and b) quantitative prioritization. The first type of the prioritization technique prioritizes investment projects by the degree they fit into the priorities of the long-term development strategies (poverty reduction, lower unemployment, regional development, impact on productivity and etc.) of the country. The quantitative prioritization is based upon the extensive economic analysis of investment projects though cost-benefit and cost-effectiveness analyses using national parameters and "shadow" or alternative prices, wage conversion factors, and discount rates. Computed NPV and IRR are then used to prioritize investment projects.²⁴
5. Management, monitoring and evaluation process are not covered in the proposal.

3.3. Project Preparation and Approval in Kazakhstan

1. Detailed regulations and instructions exist for the preparation, approval and prioritization process of investment projects in Kazakhstan. These rules are specified in the Budget Law, ordinances on "Rules for the Formulation of the List of Priority Budget Investment Projects" and "Rules for the Review of Budget Investment Projects" and Orders on "Requirements to the Feasibility Studies of Budget Investments" and on "Rules for preparation and review of financial and economic analysis of budget investments carried out through the establishment or increasing of charter capital of judicial entities".
2. The project development process in Kazakhstan begins with the submission of the project proposal (sort of a project concept paper) to the Ministry of Economy and Budget Planning (MOEBP) for review and approval. The Ministry reviews the proposal, which is required to include project's information list and logical framework, sectoral assessment of the investment project, a terms of reference and cost justification of the feasibility study. If MoEBP assessment of the proposal is positive, then the project is included into the list of priority projects to be implemented in the second or third year of the Public Investment Program and funding is released to a government organization for the development of the feasibility study. The feasibility studies in Kazakhstan are usually outsourced to specialized agencies/firms through a tender process.²⁵

²³ ²³ DAI, *Draft PI Policy and Program Manual*, October 2006, Baku, Azerbaijan., pp. 22-29.

²⁴ Ibid. pp. 29-35.

²⁵ Kazakhstan, *Rules on the Review of Budgetary Investment Projects*, COM, Ordinance #245, March 18, 2005.

3. Standards for feasibility studies of investment projects in Kazakhstan are comprehensive and consistent with modern practices. Each feasibility study is required to meet architectural and construction standards and work out the most optimal scale and structure of public investments. It has to include problem, marketing, technical, ecological, institutional, financial, economic and social analyses.²⁶
4. Following the completion of the feasibility study, a new round of the review by MOEBP and other relevant government organizations begins. MOEBP limits its review to the extensive economic analysis of the feasibility study and based on findings can adjust the project budget downward or upward. Relevant sectoral organizations examine the feasibility study to determine the extent to which the project is consistent with sectoral development priorities, to analyze the situation in a sector with and without the project, to assess compliance of the feasibility study with the terms of reference, to evaluate technological, technical and cost decisions, to analyze alternative options for achieving the project objectives and etc.
5. The approval at this stage grants the project to receive required funding for the preparation of the design, schematic drawings and specifications. In Kazakhstan community participation and involvement of other related government organizations in the investment project preparation process takes place during the design phase of the project.
6. After the design phase is over, MOEBP performs the final review of the investment project and if approved, the project is included into the list of the priority investment projects and the Draft Budget of the next year based on the request of the concerned government organization. Government organizations manage the investment projects through project coordinators they appoint to projects.
7. The Kazakhstan public investment process lacks clear prioritization guidelines. All projects with approved feasibility studies and technical design documents are eligible to get into the list of priority investment projects to be implemented in the next or after the next fiscal year unless they exceed the sectoral budget ceilings. The authority for formulation of the list of priority investment projects is assigned to MOEBP. The major prioritization criteria for public investment projects other than the availability of approved feasibility study are conformity of the project's objectives with the national development priorities and the public investment policy.²⁷
8. Monitoring and evaluation process of public investments in Kazakhstan is regulated by the Budget Law. However, the process lacks detailed and clear instructions/regulations. National level monitoring and evaluation of public investment projects in Kazakhstan are carried out by MOEBP, MOF and other concerned government organizations. Information on progress and process of the implementation of investment projects are collected and compiled by MOEBP and MoF, on the basis of which they can propose additional measures or activities to improve the effectiveness of the implementation of public investments. These measures can include suspension or termination of the project as well. MOEBP is responsible for developing regulations and instructions to manage the monitoring process of public investments.
9. Evaluation of public investments pursues improvement of the process for public investment planning and development of recommendations for effective formulation and implementation of the public investment policy. MOEBP is responsible for carrying out evaluation of the public investment policy and projects. Evaluation reports on the public investment policy and projects are submitted to COM by March of every fiscal year. The report on evaluation of the effectiveness of public investments should include analysis of investment projects, achieved

²⁶ Kazakhstan, *Requirements to the Feasibility Studies of Budget Investments*, MOEBP, Ordinance #144, September 30, 2004.

²⁷ Kazakhstan, *Rules on the Formulation of the List of Priority Budgetary Investment Projects*, MOEBP, Ordinance #247, March 18, 2005.

results from the implementation of public investments, methodology for collection and analysis of data and information, results of the evaluation and recommendations for the formulation and implementation of the PIP policy.²⁸

10. Kazakhstan's legal framework on the public investment planning distinguishes public investment projects from public investments carried out through the establishment of and increasing the charter capital of judicial entities. In the latter case, approval of the public investment requires only financial and economic analysis.²⁹

3.4 Comparative Analysis of Project Level Planning Processes

1. The project level planning process in Kazakhstan looks very similar to the process proposed to Azerbaijan. The main differences appear in the technical design, prioritization, and monitoring and evaluation stages.
2. As distinct from the proposed process to Azerbaijan, the preparation of the technical design of the investment project in Kazakhstan starts only after the approval of the feasibility study of the project. The stage for the public participation in the investment planning process is not clearly determined in the proposed system to Azerbaijan. Public participation in investment planning process in Kazakhstan takes place in the technical design phase.
3. Prioritization schemes are more clearly determined in the proposed public investment process for Azerbaijan, which consist of policy based and quantitative prioritization techniques. In Kazakhstan all projects with completed feasibility studies and appraisal process are eligible to get into the draft Budget for the next fiscal year. The prioritization is carried out according to the sectoral budget ceilings and consistence of projects' objectives with national development priorities.
4. No clear monitoring and evaluation process is proposed to the public investment planning process in Azerbaijan and no distinction is made between investment projects and public investments carried out through the establishment of and increasing the charter capital of judicial entities.

4. Overview of Issues in the Kazakhstan Public Investment Planning Process

According to international experts the Kazakhstan's PIP planning process faces following issues mostly limited to enactment of regulations: 1) Annual evaluation of the PIP is financially oriented and does not assess the socio-economic impact of investments. 2) LMs lack full in-house capacity to make informed decisions on the basis of project analysis. 3) Sometimes selection and prioritization of public investments can take place through the political process bypassing rules and regulations. 4) Funding to investment projects is allocated for a year with no provision for a carry-over of unused balances to the next fiscal year.³⁰

²⁸ Kazakhstan, *The Budget Law of the Republic of Kazakhstan*, Parliament, April 24, 2004, pp.142-144.

²⁹ Kazakhstan, *Rules on the Preparation and Review of Economic Analysis of Investments Undertaken through Establishing or Increasing the Charter Capital of Legal Entities*, MOEBP, Ordinance #143, September 30, 2004.

³⁰ Keith Clark, *Observations on the PI Program of the Republic of Kazakhstan*, US Department of Treasury, May 2006.