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PUBLIC INVESTMENT POLICY PROJECT

FINAL REPORT

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ABBREVIATIONS

CC	Call Circular
CIS	Commonwealth of Independent States
COM	Cabinet of Ministers
ERSRI	Economic Reforms Scientific Research Institute
FY	Fiscal Year
IMF	International Monetary Fund
IT	information technology
LTTA	long-term technical assistance
MOED	Ministry of Economic Development
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOT	Ministry of Transport
MTEF	Medium-Term Expenditure Framework
MTMF	Medium-Term Macroeconomic Framework
NBA	National Bank of Azerbaijan
NGO	nongovernmental organization
PI	public investment
PIP	Public Investment Program
PIPP	Public Investment Policy Project (USAID/DAI)
QAB	<i>Quarterly Analytical Bulletin</i>
RDP	Regional Development Program
RMSM-X	Revised Minimum Standard Model—Extended (World Bank)
SPPRS	State Program for Poverty Reduction and Sustainable Development
SSDP	Sector Strategic Development Plan
STTA	short-term technical assistance
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

In 2004, USAID/Azerbaijan, anticipating a huge oil revenue windfall to Azerbaijan from increased oil production, higher oil prices, and imminent completion of the Baku-Tbilisi-Ceyhan oil pipeline, joined with the Government of Azerbaijan to design a project to strengthen Azerbaijan’s public investment planning and implementation. This was done to improve the country’s capacity to ensure that investments made in public infrastructure and in public goods and services would be the kind that would contribute most effectively and efficiently to Azerbaijan’s long-term economic growth and development. Both USAID and the Azerbaijan government wanted to keep the economy from suffering the negative consequences of the “resource curse.” This design was turned into a project and a contract won by DAI in March 2005.

The Azerbaijan Public Investment Policy and Efficiency (PIPE) project, later renamed the Public Investment Policy (PIP) Project, was a \$5.2 million (\$5.0 million funded), 32-month contract between USAID/Caucasus (Azerbaijan) and DAI. Its primary objective was to strengthen the Government of Azerbaijan’s institutional capacity for long-term development and policy planning, both national and sectoral; capital budget formulation; and preparation, appraisal, and monitoring and evaluation of investment projects.

The concerns of the Government of Azerbaijan and of USAID about the government’s ability to handle the huge inflow of resources were well-founded. Sectoral plans and programs were not clearly linked to national development and poverty reduction plans. The identification, selection, and appraisal of public capital investments were fragmented. Their inclusion into the budget review process was cursory at best. Institutional rivalry about who was to make decisions about capital investments was rife, and the process was not explicitly formulated legally or enforced. The legal foundation for developing a tight review and selection process for public investment planning was unclear in the absence of explicit regulations. Finally, there was little technical capacity to conduct thoroughgoing economic or social cost-benefit analyses of proposed public investment projects. Without the interventions anticipated by the project, there was a high likelihood that the public investments to be funded with the huge influx of oil revenue would not be selected primarily on the strength of their contribution to longer-term growth and investment—especially growth and investment in a post-oil era.

Since the PIPP has begun its interventions, there is reason to be more confident about the quality of public investment choices. In December 2006, the Ministry of Economic Development (MOED) was given the clear mandate to lead the process of public investment planning and project appraisal. A unit within MOED—the Public Investment (PI) Department—was created specifically to drive the process of reviewing public investment plans of line ministries and to ensure that complete economic cost-benefit analyses have been conducted for the most important and largest projects and programs being submitted by line ministries for approval, inclusion in the budget and, ultimately, funding and implementation. Numerous government officials have been trained in the public investment process and in cost-benefit analysis. In addition, MOED’s PIP Call Circulars—instructions to line ministries on the approach they should take in submitting investment plans—have been redesigned to ensure that the information included with submitted plans justifies the social and economic impact of proposed projects and helps to tightly link budgets with medium-term development and poverty reduction plans.

The project helped the Ministry of Economic Development draft a number of core documents and requirements (department charter, staffing plan) for its Public Investment Department operation and requirements for project preparation and appraisal, using modern cost-benefit analysis techniques. Institutional capacity, while much strengthened, needs further improvements at both MOED and line ministries in the sector for full implementation of the new approach to project selection, implementation, and oversight.

Azerbaijan's capital expenditure reform remains a work in progress. This is to be expected, given the country's relatively recent transition from a socialistic and politically driven economy to a regulated, market-driven one. At this point, several further improvements are critical. The process of public investment planning needs to be given a stronger legal mandate. It needs to be supported by economic cost-benefit analyses of projects early enough in the process for it to make a difference in project selection, and the link to medium-term budgets also needs to be strengthened. Furthermore, to avoid the inflationary effects of Dutch disease, the Government of Azerbaijan needs to find a way to better sterilize its vast foreign exchange earnings. Finally, it is imperative that information on project selection and inclusion in the PIP be made more widely available to the country's citizens so the whole process can benefit from increased transparency and accountability.

Substantial steps have been taken, but Azerbaijan's economic realities—both political and institutional—suggest that the process will not be linear and that there will be policy reverses as well as advances to contend with. While technical capacity is part of the problem, understanding personal, institutional and procedural incentives is arguably more important to ultimately getting this right and ensuring an effective, efficient, transparent, accountable, and trusted public investment program.

I. INTRODUCTION

Azerbaijan has experienced extraordinary economic growth as a result of the windfall from its oil revenues. National income doubled between 2005 and 2007, and oil grew to represent 59 percent of gross domestic product. The reasons are twofold—full-scale operation of oil producers operating within Azerbaijan under the aegis of Production Sharing Agreements, and the bringing on line of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline—and the bonanza has brought with it a huge increase in public revenues. One need only think of the increase in recent years in the price of oil—from \$55 per barrel to over \$100 in early 2008—to understand the impact this has had on the state revenue stream. Azerbaijan economic managers have had to contend with ways to wisely use a flood of oil-generated revenues over the next four to five years of high oil production capacity and then to ensure that investments made during the bonanza establish a foundation for longer-term non-oil-based economic growth and development.

Azerbaijan must challenge the resource curse menacing developing and transitional countries. This is the observed reality that when the economies of such countries include substantial oil-based income, as in Mexico, Nigeria, and Argentina, they have averaged significantly slower growth than other developing economies over the last four decades, and have experienced much greater economic volatility as well. Azerbaijan must instead seek to emulate countries such as Norway and the UK that have successfully managed their oil wealth and oil-fueled increases in public expenditures. There are, essentially, three reasons for the resource curse phenomenon that Azerbaijan needs to avoid:

- Booming revenues from oil sales often lead to investment in ill-conceived welfare schemes and pork-barrel projects, with accompanying corruption.
- Volatile world oil prices cause destabilizing swings in balance of payments, fiscal revenues, and deficits.
- Oil-rich economies are susceptible to “Dutch disease,” a condition in which increased foreign exchange inflows cause the national currency to appreciate and make the non-oil economy less competitive.

The Government of Azerbaijan’s Public Investment Program, managed by the Cabinet of Ministers (COM) and supervised by the Ministry of Economic Development (MOED), has experienced substantial budget increases in recent years and projects continued rapid growth into the near future: AZN 164M in 2005; AZN 882M in 2006; AZN 1.9B in 2007; AZN 2.83B in 2008; AZN 3B in 2009; AZN 2.81B in 2010; and AZN 2.66B in 2011. Government revenues from oil and gas are expected to follow a cycle of investment, exploitation, and decline based on known oil reserves. Since Azerbaijan’s oil boom is projected to be relatively short-lived, it becomes that much more important that oil revenue-funded public investments be chosen carefully and wisely for maximum long-term growth and employment impact.

It was in this context that USAID/Caucasus (Azerbaijan) established the Public Investment Policy and Efficiency (PIPE) Project and contracted with DAI to operate this policy reform and capacity building project to shore up Azerbaijan’s ability to absorb the glut of oil revenues and apply the funds to economically valuable projects.

The PIPE project, later renamed the Public Investment Policy (PIP) Project, was tasked by USAID to help strengthen the Government of Azerbaijan’s institutional capacity for a) long-term development and policy

planning, both national and sectoral; b) capital-budget formulation; and c) preparation, appraisal, and monitoring and evaluation of investment projects.

In this final report we present details about the activities the PIPP undertook to achieve its objectives. We make the case that PIPP interventions have begun to have a positive effect on Azerbaijan's selection of projects and programs, which will, in turn, improve the long-term development prospects of the country. We make our case by a) depicting the performance of Azerbaijan's development and poverty-reduction planning, in terms of capital budgeting and project cycle management, before the project began; b) presenting evidence of the ways project interventions have affected the situation; and c) cataloguing and discussing specific project interventions. We conclude with observations and recommendations for further USAID assistance.

II. BEFORE PROJECT INTERVENTION

Before developing the Public Investment Policy Project and getting the benefit of its policy-reform and capacity-building technical assistance, the Azerbaijan government had a fragmented system for conducting long-term planning, defining sector development plans, and identifying, selecting, and approving projects to be included in the nation's Public Investment Program (PIP). Up to 2006, the PIP budget was presented as one line item in the State Consolidated Budget, without any breakdown of projects to be financed.

Over the past decade or so, however, the Government of Azerbaijan had been adopting a number of new instruments and practices—for example, the Medium-Term Macroeconomic Framework (MTMF), Medium-Term Expenditure Framework (MTEF), and sector development reports—but mostly on an ad hoc basis; the new tools were used by some agencies but not others, and without an encompassing framework. As a result, there was little effective linkage between planning and budgeting instruments. Public investment policy formulation, which should have been providing the required linkage, could not play this role because it was also fragmented among various agencies and instruments. Some public sector capital spending was included in the PIP, and some in the State Consolidated Budget. The former expenditures were expected to be endorsed by MOED; the latter, by the Ministry of Finance (MOF). However, MOF appeared to have no reservations in excluding or replacing projects approved by MOED. Moreover, line ministries could submit their sector investment programs for the next 5 to 10 years directly to the Cabinet or, in some cases, the President's Office for approval, with MOED and MOF only making some comments from the sidelines.

The disjointed nature of Azerbaijan's budgeting of public capital spending, and the disconnect between planning and budgeting instruments, made a centralized prioritization of public investments in Azerbaijan, based on a standardized approach, virtually impossible. In fact, the problem went beyond prioritization of public capital spending. The lack of linkage between decision making and budgeting in public expenditure management undermined realistic planning, budgetary discipline, transparency and accountability, and the efficiency of public resource uses and service delivery.

MOED putatively had the lead in developing the PIP and thereby controlling what was presented to the Cabinet of Ministers (COM) for approval in the capital budget. The reality was much more complex. Line ministries with their own power relations in the COM were able to present pet projects without first getting MOED approval. In composing the public budget, MOF would give relatively short shrift to the PIP—sometimes giving it only a single page—or MOED. The MTEF, only recently adopted, was not effectively integrating planning with budgeting for development. The process of project selection was not tightly bound to medium-term plans for development or poverty reduction, such as the State Program on Poverty Reduction and Economic Development (SPPRED) 2003–2005, the subsequent State Program for Sustainable Development (not yet approved), and the Regional Development Program (RDP) 2004–2008.

Other weaknesses of the Government of Azerbaijan were poor institutional and technical capacity in long-term planning, budget formulation, and project development and management. MOF and MOED had insufficient capacity for preparing the annual State Consolidated Budget, the MTEF, and the PIP. Line

ministries and other government organizations, as well as regional executive bodies and municipalities, had weak capacity to prepare and prioritize projects in accordance with modern norms of economic feasibility. There was no rational development and policy planning framework at either the macro (government-wide) or sectoral (ministerial) level. The selection of public investment projects in Azerbaijan was not based on any formal cost-benefit or any other systematic (e.g., cost-effectiveness or multi-criteria analysis) analysis.

Statistical data upon which assumptions are based in developing multiyear plans and budgets were not unified. Moreover, the country lacked key elements—the tight cooperation among major economic planning stakeholders, the regulatory framework (policies and procedures), or the institutional capacity—needed to prepare, appraise and manage projects comprising the annual and rolling three-year Public Investment Program. This exacerbated the problems identified above.

The PIPP’s Diagnostic Review in May 2005 pinpointed the weak linkages between the budget and planning instruments, absence of a proper formal macroeconomic and sectoral framework (model) for the development of these instruments, and inadequate consideration of structural, resource and consistency constraints. Each year MOED prepared socioeconomic development forecasts without the benefit of any formal model. Independently from MOED’s forecasts, the IMF developed its MTMF as part of the requirements of the Poverty Reduction and Growth Facility.¹ The Diagnostic Review also revealed the fragmented nature of macroeconomic policy formulation by MOED, National Bank of Azerbaijan (NBA), and MOF.

In addition, it was not a standing practice for line ministries and other government agencies to consult with independent experts and civil society in the process of planning and making decisions on public investments. The majority of line ministries treated the preparation of their budgets and sector investment programs as strictly confidential and the draft documents as exclusively “for official use.” There were no formal guidelines or established practice for ensuring the participation of civil society, NGOs and other stakeholders in discussions on public sector investment projects. Line ministry officials did not recognize this as a serious weakness in their sectoral PIP development process, believing instead that they were “protecting the government’s interests.”

In Azerbaijan, almost all decisions about public investment policy and project selection were made or approved by the Executive Offices of the President or the Prime Minister, a practice that was inefficient in its overcentralization of authority, and one that could certainly not cope with the rapidly growing size of the PIP.

The MOED Charter bestowed upon MOED a wide range of mandates to discharge its crucial and far-reaching responsibilities, but the charter combined a large number of essential functions without adequately systemizing them. It also included many other functions or mandates with questionable usefulness in a market-based economy.

Specifically, what was needed to build a modern and effective public expenditure management system was:

¹The Government of Azerbaijan decided not to renew this facility when the last one ended in 2005.

1. **Aggregate fiscal discipline:** Budget totals needed to be the result of explicit, enforced decisions, not merely accommodative of spending demands. They needed to be set before individual spending decisions were made, and had to be sustainable over the medium term and beyond.
2. **Allocative efficiency:** Expenditures needed to be passed (approved) on the basis of government priorities and on best estimates of their expected effectiveness. The budget system needed to be able to reinforce reallocation of resources from lesser to higher priorities and from less to more effective programs.
3. **Operational efficiency:** Agencies needed to produce public goods and services efficiently and (to the extent appropriate) at prices that are competitive with market prices.²

² Allen Shick, *A Contemporary Approach to Public Expenditure Management*, World Bank Institute, April 1999, p.2.

III. IMPACT OF PROJECT INTERVENTION

There is little doubt that as a result of the PIPP intervention, the capacity of the Azerbaijan government to conduct good economic analyses of proposed public investments has been significantly strengthened, and there is now a solid recognition that all public investment projects require scrutiny in terms of project preparation, appraisal, and validation. This is because of improvements in the legal and regulatory underpinnings of the PIP, which have clarified institutional roles and responsibilities. It is also because of organizational changes within MOED, training at senior and analyst levels in key economic and technical ministries, and better information on which to base decisions. The organizational structure and technical knowledge needed to link development and poverty reduction planning to capital budgeting and PIP, as well as appraise and monitor projects, is much improved. Going forward, the challenge before the Azerbaijan government is to enforce the MOED's oversight role in managing and monitoring the PIP process.

With the issuance of Presidential Decree No. 504 (Charter of Ministry of Economic Development) of December 28, 2006, MOED was given the formal mandate to manage the preparation and implementation of the PIP and to ensure a rigorous process for ensuring that only projects that contribute to Azerbaijan socioeconomic development, as articulated in the Government of Azerbaijan development plans and programs (SPPRED and RDP), are selected for funding. This process emphasizes the importance of guiding technical ministries in how to present proposed investments to facilitate their review and approval by MOED.

With this strengthened mandate, and the rapidly growing budget for capital investment, the project proposed the creation of a specialized Public Investment Program (PIP) Department in MOED, which was established in spring 2007. The new PIP Department, while still understaffed with only nine technical staff currently employed, is projected to grow to about 40 over the next few years, as recommended by the PIPP. The PIPP's functional and institutional review of MOED resulted in this and other recommendations that are increasingly getting a hearing by MOED senior management today.³

As a result of numerous iterations and discussions with staff at MOED and the technical ministries, the project drew up a new more focused and instructional PIP Call Circular. A Call Circular contains instructions for line ministries on submitting investment plans, and the PIP Call Circular that MOED now issues to government agencies provides much-improved guidance on how and in what form technical ministries should provide information about projects they want to have funded under the PIP. Among other important innovations, the new PIP Call Circular issued by MOED requires that ministries conduct economic cost-benefit analysis of projects to be submitted for the PIP.

The MOED has a PIP database that covers the past four years of public investment projects, providing critical data about the projects and their performance and offering its staff easily accessible data that can be put in tables and graphs for deeper analysis and comparison.

³ The Deputy Minister of MOED Ms. Sevinj Hasanova stated as much during a courtesy lunch on February 26, 2008, three days before the project ended.

There is a greater understanding on the part of both the government and civil society of the need for and value of civil society participation in the development of national economic plans and sectoral plans, as well as in the process of capital budgeting and selection of projects and programs for the PIP.

MOED staff and the staff of key line ministries, such as the Ministry of Agriculture, the State Committee for Irrigation and Water Resources, and the Ministry of Industry and Energy, have substantially improved their capacity to identify, appraise and manage projects. There is a cadre of 400 MOED and line ministry staff, extensively trained in modern economic cost-benefit analyses of projects, who can serve as the nucleus for improved analysis of candidate PIPs.

The Government of Azerbaijan is now equipped with the knowledge, tools and trained personnel to:

- Identify the main objectives and strategies of Azerbaijan's public investment policy over the medium term in relation to the country's overall political, social, and economic objectives as articulated in state development programs (for poverty reduction, sustainable development, and regional development), and other key official documents.
- Estimate the annual resource envelope of the country over the medium term.
- Distribute the annual national spending between consumption and investment and then in each category between the public and private sectors, in line with national political, social and economic objectives.
- Allocate total public capital spending among the sectors in line with national objectives and strategies for sectoral development, as reflected in state development programs and other key government documents.
- Allocate sectoral estimates for public capital spending to investment programs and projects in conformity with sector development objectives, strategies and targets.
- Confirm the consistency of all the above decisions by checking:
 - 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.
 - Internal consistency of sectoral development and public investment targets.
 - The public capital spending estimates of state development programs (and their Annual Performance Reviews) against that of the MTEF/State Consolidated Budget/Annual State Budget.

Management of public investment in Azerbaijan is still a work in progress, but, as we will show below, many important steps have been taken that offer the promise of bringing about a much more rational approach to the selection of public investment projects leading to broad economic benefits.

Institutional capacities of central economic agencies have improved, yet remain insufficient to formulate the sector development framework, establish medium-term operational objectives, and, based on these, prepare sound projects. Therefore, despite the notable progress achieved during 2005–2007, the effort to improve the public investment policy process requires continuation and strengthening.

IV. WHAT WE DID (PIPP ACCOMPLISHMENTS)

NOTABLE ACHIEVEMENTS OF THE PROJECT

Notable achievements of the USAID Public Investment Policy Project in strengthening public expenditure efficacy include the following, described in greater detail further on:

- Reorganization of MOED to more effectively guide economic policy planning and management of the Public Investment Program. PIPP’s contribution came in the form of the recommendations from its functional and institutional review of MOED.
- Designation of MOED as the PIP managing agency (under Decree No. 504, mentioned above).
- Establishment of a PIP Department within MOED, elevating the status of PIP development and monitoring and increasing staffing for public investment analysis in response to the huge influx of funds and to PIPP recommendations.
- A new PIP Call Circular that clarifies the process and provides clear, detailed instructions for line ministries to submit information on sector development plans and priorities, recurrent and capital expenditures, and requested projects and analysis.
- Establishment of a PIP Database at MOED to maintain and update records of all public investment projects for the past four years. The database is a powerful tool to track projects’ implementation and monitoring. It also allows project analysts at MOED PIP Department to construct tables and graphs for better project tracking.
- 400 staff members of key central and sector ministries trained (through workshops, formal trainings, study tours) in macroeconomic forecasting, sector development planning, project preparation, and project cost-benefit analysis and appraisal.
- The testing by MOED of project monitoring techniques—including collecting quarterly project implementation information from implementer agencies—on 50 large public investment projects.
- Preparation and delivery of the *PIP Manual* to the prime counterpart organizations, providing the rationale for linking public investment policy with planning and budgeting and offering a step-by-step guide to the sequencing of and requirements for PIP preparation; a discussion of the project cycle and requirements for project preparation, prioritization, and validation; and annexes with the required forms and templates.
- Preparation and submission of PIP regulations for Government of Azerbaijan approval in order to provide the legal basis for a more robust and rigorous approach to public investment and project selection. The regulations’ seven chapters link the PIP preparation and approval process with the budget cycle and state requirements for policy planning, project preparation, and project validation, as well as monitoring and evaluation.

DETAILED SUMMARY OF PROJECT ACTIVITIES

As one of its initial activities, and in order to prepare a well-grounded, realistic workplan and training program, PIPP conducted an Institutional Diagnostic and Training Needs Assessment in May 2005. This was carried out by a team of 14: four long-term staff members of the PIPP Baku Office, six short-term international consultants, and four short-term local experts. This exercise thoroughly assessed the capability of long-term planning, project selection, and capital budgeting at MOED, MOF, and key line ministries.⁴ It identified the type of training that would best respond to the needs of staff responsible for investment planning and budgeting. This assessment identified prioritized activities to build up government capacity to:

- Develop long- and medium-term plans and policies.
- Develop and mesh public investment policy and programs with the MTEF.
- Identify economically optimal programs and projects for development of the non-oil sector.
- Apply economic and social criteria, together with the goals of medium-term development and poverty-reduction plans, to the selection and prioritization of projects.

During the first year of operations (2005–2006), PIPP’s work was structured (as articulated in the workplan) into four core components:

Component A: *Improving determination of national and sectoral development objectives, strategies, and investment policies for medium-term planning and budgeting at macro and sector levels, in line with state development programs.* Key levers or activities to achieve the goals of Component A included:

- Strengthening the Azerbaijan government’s political will and determination in bringing consistency to various economic agencies⁵ in formulating macroeconomic policy.
- Using unified statistical data for improved decision-making.
- Formulating sector development priorities.
- Fully institutionalizing a medium-term budget framework.
- Based on the above, developing the National Development Framework linking capital expenditure priorities to budget limitations

Component B: *Improving formulation of public sector capital budgeting as a bridge between development planning and the State Consolidated Budget.* The key to attaining the objectives of Component B was considered to be establishment of a High Policy Planning Committee (HPPC) under the aegis of the President or Prime Minister. This HPPC would harmonize economic planning, sector development planning, and budget considerations. It would provide the needed high-level direction critical for implementation and would also serve as an accountability mechanism.⁶

⁴ These included the Ministry of Industry and Energy, Ministry of Communications and Information Technology, Ministry of Transportation, Ministry of Agriculture, Ministry of Education, and Ministry of Health.

⁵ Primarily, the MOED, MOF, and NBA, with participation of the State Oil Fund and Milli Mejlis (the Parliament)

⁶ On January 30, 2007, the COM issued a resolution to establish an Interministerial Working Group on Macroeconomic Forecasting by February 2008. This group would include, among others, MOED, MOF, NBA, and the Ministry of Statistics. MOED has decided to recommend to COM the establishment of an HPPC to make a final decision on the composition of the annual PIP, based on

Component C: *Helping to strengthen the Government’s institutional and technical capacity for sound management of the public investment project cycle (comprising identification, appraisal, preparation, prioritization, implementation, and monitoring and evaluation) in all budgetary organizations.*

Specifically, to develop these capacities and achieve the goals of Component C, the following levers were proposed:

- Development, approval, and enforcement of the national PIP “rules of the game”—regulations and procedures for project preparation and for linking PIP preparation to the project cycle. These make it possible to introduce a discipline and sequence into the review of project ideas at very early stages and to verify whether capital expenditures will yield the necessary returns over time and spur non-oil sector development, employment, and regional economic growth
- Establishment of candidate public investment projects or programs based on sector development plans, priorities, and sector budget limitations and taking into consideration cross-sectoral effects of public investments.
- Harmonization of sector planning with national development priorities and budget ceilings, and establishment of quantifiable, objectively verifiable medium-term performance measures.
- Improvement of a system of salaries and other remuneration that will attract professionals to join the public sector and implement the improvements to the public expenditure and public investment planning process.

Component D: *Conducting an extensive training program to support the above activities.* Specifics of the training program involved development and implementation of a program of sustainable staff competence building across agencies in planning, budgeting, and project preparation, using cost-benefit analysis techniques.

ACHIEVING PROJECT OBJECTIVES AND DELIVERABLES

COMPONENT A: IMPROVED CAPACITY IN LONG-TERM DEVELOPMENT PLANNING AND INVESTMENT POLICY FORMULATION, AT THE NATIONAL AND SECTOR LEVELS

The PIP contract called for the following deliverables related to long-term development planning and investment policy formulation. As will be shown below, DAI provided substantial assistance, review, comments, and training related to development planning and policy formulation, a critical building block to the effective development of public investment plans and project selection.

Relevant Contract Task/Deliverable: Task/Deliverable #6: *The Contractor will provide advice and other assistance to the Minister and Deputy Minister of the MOED and others in formulation, amendment, and implementation of Azerbaijan’s long-term development plans.*

social importance and the results of cost-benefit analysis. While the HPPC has not been established, it is clear that the government sees the importance of interministerial cooperation on issues of macroeconomic forecasting, planning, and budget preparation.

Intermediate Result (Work Plan IR 2): A set of “National and Sector Priorities for Social and Economic Development Plan” in line with the country’s medium- to long-term development plans (SPPRED/RDP), and resource constraints developed.

Status: Accomplished. The PIPP staff helped MOED revise the State Program for Poverty Reduction and Sustainable Development (2006–2010). Our assistance focused on making the document clearer, putting articulated national priorities into a better context, and specifying results (impact) from public expenditures, translated into economic growth and social welfare.

Intermediate Result (Work Plan IR 3): Medium- to long-term sector development plans in selected line ministries in line with the national and sector development objectives.

Status: Partially accomplished. During 2005–2006 the PIPP helped line ministries bring their sector strategic development plans (SSDPs) into compliance with the macroeconomic development agenda and budget constraints. Most ministries operate according to their own sector-specific plans, which are often inconsistent with macroeconomic goals and fiscal realities. The SSDPs often represent little more than declarations of intent or lists (earmarks) of specific projects to be funded. They have no particular rationale in terms of socioeconomic impact, expected cross-sectoral development outcomes, or prioritization.

To tighten SSDPs’ links to broader macroeconomic aims and longer-term development goals, the PIPP team conducted workshops with the cooperating counterpart ministries. We sought to convince them to revise existing SSDPs and to prepare medium-term objectives. Our counterparts acknowledged the need to revise SSDPs, pursuant to a) a clear signal and demand from the top executives; b) clear formulation and guidance on national strategic (10–15 years) and medium-term priorities (5 years), and c) requirements for cross-sector and integrated project analysis. Hence, progress on revising existing SSDPs revision will depend on the government’s determination to establish development goals and the national strategic development agenda. The PIPP team proposed a model for SSDP preparation, and we recommend that any follow-on project closely monitor adoption and implementation of this model. It will take time for line ministries to adapt to a more rationalized and rigorous approach to developing their sector plans and linking them to larger national goals. It is important to continue to show why this is a better approach to SSDPs. This was a focus of the two workshops the PIPP held for decision makers, as well as of the follow-up formal integrated cost-benefit analysis trainings held in February–March 2006.

Intermediate Result (Work Plan IR 13): Workshop for senior policy and decision makers on linkages between planning, PIP and budgeting prepared and delivered.

Status: Accomplished. The conference was held in Baku on April 12, 2006, and was led by U.S. Ambassador Reno Harnish; James Goggin, USAID Country Director for Azerbaijan; Avez Alekberov, Minister of Finance; Heydar Babayev, Minister of Economic Development; Elman Rustamov, Chairman of the NBA; and Valeh Alasgarov, Deputy Speaker of the Azerbaijan Parliament. In their statements, these leaders emphasized the developmental and poverty-reduction importance of consolidating efforts and achieving greater effectiveness in macroeconomic planning, budgeting, and investment planning. Over 40 representatives from 33 organizations representing the Government of Azerbaijan, international financial institutions, diplomatic missions, and businesses participated in the event. The conference was well received by the participants who expressed appreciation to DAI/PIPP for successfully organizing such an important economic policy forum. The forum provided the high-level buy-in and ownership needed to institutionalize stronger links between macroeconomic and fiscal goals, on the one hand, and sector development plans and programs/projects, on the other.

COMPONENT B: IMPROVED CAPITAL BUDGETING (PIP) AS AN EFFECTIVE TOOL FOR MACROECONOMIC MANAGEMENT, DEVELOPMENT PLANNING, AND EFFICIENT RESOURCE USE

Strengthening of the link between capital budgeting, medium-term planning, and the broader budgeting process was an important part of the project. Below are the tasks and activities that the project engaged in to strengthen this critical aspect of public expenditure management.

Relevant Contract Task/Deliverable: Task/Deliverable #1: *The Contractor will review with MOED the contents of the PIP for the budget year 2005 and the documentation that was supplied for the underlying project proposals that were submitted and vetted during 2004 to determine the PIP budget and the MTEF for 2005–08. This review will allow the Contractor to....suggest—and help MOED to implement—possible changes in Government of Azerbaijan procedures and documentation requirements for PIP proposals for 2006–09 and subsequent budget years.*

Intermediate Result (Work Plan IR 1). Documents on organizational and procedural arrangements for establishing the High Policy Planning Council (HPPC) and Secretariat services prepared and presented for Government of Azerbaijan consideration and implementation

Status: Accomplished. The PIPP prepared a set of documents identifying the rationale and scope of responsibilities for the HPPC, which would function under the auspices of the COM to link sector development planning with macroeconomic projections and economic goals, prioritizing based on budgetary limits. The documents were widely distributed and discussed with the counterpart organizations (COM, MOED, MOF, NBA, other stakeholders). We presented our recommendations during the April 12, 2006, high-level economic policy meeting involving the U.S. Ambassador, the Ministers of MOED and MOF, the Chairman of NBA, and the Deputy Speaker of the Parliament.

Intermediate Result (Work Plan IR 4). Draft “Cabinet Decree on Instructions for Planning and Budgeting over 2007–10 as a joint SPPRED/RDP/Budget/PIP Call Circular,” including indicative sectoral expenditure ceilings prepared.

Status: Accomplished. The PIPP prepared the Decree of the Cabinet of Ministers on the joint SPPRED/RDP/Budget/PIP Call Circular for review and approval. In 2006 the PIPP staff prepared a comprehensive *PIP Manual* that provides a structure and a rationale for the joint planning–budgeting Call Circular.

Intermediate Results (Work Plan IR 5). MOED Sector Working Papers series initiated.

Status: Accomplished. The Economic Reforms Scientific Research Institute (ERSRI), the research arm of MOED, has begun to compile and publish the *Quarterly Analytical Bulletin* (QAB) on socioeconomic developments in Azerbaijan. The bulletin is a joint initiative of the National Bank, MOED, MOF, the Customs Committee, the Ministry of Taxation, and State Statistics Committee. The PIPP participated in meetings and other deliberations of the Joint Working Group, providing technical advice for QAB’s preparation. We saw this activity as strategic, and our support on developing the QAB as a good opportunity and entry point for improving data compilation and the analytical capacity of both ERSRI and the sectoral ministries involved in economic decision making. To maximize the QAB’s usefulness, the PIPP recommended the type of data it should include, as well as the format that would best lend itself to use by consumers of the QAB’s data. We provided the ERSRI with bulletins published in economically advanced countries as models for the QAB, and helped ERSRI produce the first issue of the *Quarterly Analytical Bulletin* in May 2007.

The QAB focused on economic developments in 2006. The format and effort exemplified were commendable. Comprehensive restructuring of ERSRI in early 2007, work on recruitment of staff for the new organization, and capital repairs in ERSRI's offices significantly delayed the QAB's preparation. ERSRI also faced significant challenges in putting together and publishing the bulletin on time due to poor technical capacity and inexperience.

Intermediate Result (Work Plan IR 7). Improved procedural arrangements for public sector budgeting through the development of *PIP Manual*.

Status: Accomplished. The PIPP finalized the *PIP Manual* in 2006 and transferred it to MOED and stakeholder organizations. In the fall of 2006 we conducted a series of trainings based on the Manual, which provided a better understanding of concepts and tools required for PIP preparation.

Intermediate Result (Work Plan IR 8). Prepare procedures for PIP 2007–10 and submit to MOED for consideration and approval.

Status: Accomplished. The PIPP worked with the staff of MOED to prepare an improved structure for the PIP Call Circular and precise requirements for information on candidate public investment projects. The new requirements of the PIP Call Circular oblige requestor agencies to submit information on sector priorities and plans, as well as recurrent and capital expenditures, and to conduct cost-benefit analysis of projects to determine net present value and rate of return from proposed investments.

COMPONENT C: IMPROVED INVESTMENT PROJECT PREPARATION, APPRAISAL, AND MONITORING

Given the massive increase in the capital budget that the Government of Azerbaijan has experienced in the past few years (a “problem” not experienced by many countries), improving capacity for preparing, appraising, and monitoring a large number of projects has become particularly crucial to good public investment outcomes. Much of the training the project provided focused on building the capacity to conduct modern economic (as opposed to purely financial) cost-benefit analyses of proposed government projects or programs.

Relevant Contract Task/Deliverable: Task/Deliverable #3: *The Contractor will develop and deliver a formal training program on economic analysis and appraisal of investment projects for key personnel: from the MOED, from selected technical ministries, and from local state and private universities.*

Intermediate Result (Work Plan IR 6). Establish a database of Azerbaijan's public investment projects and depository/library of investment reports and studies.

Status: Accomplished. We established a database of public investment projects going back to 2005 and prepared a library of investment reports and studies, all of which we transferred to MOED. The PIPP staff organized trainings on how to use the database. We also provided separate but related training in software applications—MS Excel and Access—to allow MOED to more effectively use the database, which has already become a useful tool for registering, tracking and analyzing projects. Analysts will be able to produce graphs and reports per sectors and period, giving MOED staff operational capability to track project developments and the status of their implementation. Finally, the database allows MOED analysts to download information on project monitoring and evaluation based on quarterly information provided by the project implementer organizations.

Intermediate Result (Work Plan IR 9). Procedures for project appraisal, preparation and negotiations developed and presented to the Government of Azerbaijan for approval.

Status: Accomplished. The PIPP staff drafted operational instructions for public investment policy; investment project preparation and appraisal; monitoring; and evaluation for results. MOED asked the PIPP staff to help prepare the PIP Regulations, a major official document that will provide the legal framework for PIP preparation and management.

Intermediate Result (Work Plan IR 10). Guidelines and instructions for line agencies to use realistic unit costs and user fees in proposed PIPPs developed and submitted to Government of Azerbaijan.

Status: Partially accomplished. The PIPP prepared the terms of reference for the research work on shadow pricing. The joint work was scheduled for Q4 2006 and later postponed due to the major restructuring of MOED and reorganization of the assigned counterpart agency—the ERSRI. Our series of trainings provided on economic cost-benefit analyses of proposed projects highlighted the need for and importance of shadow pricing.

Intermediate Result (Work Plan IR 11). Technical memo on use of shadow prices in project (economic) appraisal prepared and submitted to the Government of Azerbaijan for adoption.

Status: Partially accomplished. The PIPP prepared the terms of reference for the research work on shadow pricing. The joint work was scheduled for Q4 2006 and later postponed due to the major restructuring of MOED and reorganization of the assigned counterpart agency, the ERSRI.

COMPONENT D: INCREASED KNOWLEDGE AND PROFICIENCY OF GOVERNMENT OFFICIALS INVOLVED IN THE DESIGN AND IMPLEMENTATION OF THE PUBLIC INVESTMENT PROGRAM

This was the cross-cutting training component of the project.

Relevant Contract Task/Deliverable: Task/Deliverable #2: *The Contractor will review skills of current and prospective new MOED staff, will assist in the recruitment of new personnel for numerous vacancies, and will recommend a training program.*

Intermediate Result (Work Plan IR 12). Detailed “Training Course Delivery Plan” prepared, discussed, and agreed upon with the Government of Azerbaijan counterparts.

Status: Accomplished. Taking into consideration the results and recommendations of the sectoral/ministerial analyses, the PIPP staff, with technical support of an international training provider, prepared a detailed multi-week course plan to deliver project integrated (cost-benefit) analysis training. Four training rounds were conducted involving stakeholders from central economic and sectoral agencies during 2006, involving 171 executives and project analysts.

Subsequent practical training was provided in December 2006 and February 2008, focusing on building up a cadre of project analysts highly trained in economic cost-benefit analysis techniques and capable of serving as trainers. The training, consisting of two rounds, involved 15 project analysts from MOED and capital-intensive sector ministries. It was led by Prof. Glenn Jenkins, a world-recognized expert in project analysis, and his staff from the Cambridge Resource International. The curricula included hands-on practice in project preparation combined with theory necessary to master the techniques of cost-benefit analysis.

Intermediate Result (Work Plan IR 14). Number of employees involved in PIPE formal and on-the-job Training Program.

Status: Accomplished.

- In 2005 the PIPP facilitated training of MOED, MOF, and sectoral ministry staff in SSDPs through a series of workshops.
- In order to improve macroeconomic modeling, the project coordinated with the World Bank to provide RMSM-X training in Russia. This training involved 15 public sector professionals.
- In 2006, over 170 counterpart employees participated in the program on Integrated Project Appraisal.
- We also led 14 government officials on a study tour to Ankara, Turkey, to see how the Turkish government conducts its economic and capital expenditure planning and to draw lessons for Azerbaijan.
- In 2007, we trained 72 government officials, specialists in agriculture and irrigation, in project cost-benefit analysis. This training was led by Professor Glenn Jenkins and his team from Cambridge Resource International. Study tours involving the staff of 31 were organized and conducted to Oslo, Norway; Ankara (two trips: one for executives and one for practitioners); and Astana, Kazakhstan.
- The PIPP staff also conducted workshops highlighting the importance of the participatory process in budget planning and execution awareness, and budget preparation in the local communities (participated in three regional conferences involving over 200 local financiers and executives).

STATUS OF PROGRESS TOWARD 2007 INTERMEDIATE RESULTS

CUMULATIVE TOTALS FOR NUMERICAL TARGETS

For 2007, the following Intermediate Results and numerical targets were selected and approved by USAID to demonstrate progress toward achieving the PIPP programmatic objectives:

Target 1. Improved regulation of the State Public Investment Program

Indicator 1. The Ministry of Economic Development (MOED) establishes a specialized PIP Department, issues a new format for PIP Call Circular with the requirements for project cost-benefit analysis

Actual:

- The President of Azerbaijan Decree #504 of December 2007 provided MOED with the functions of the state governor of PIP.
- The specialized PIP Department was established to manage public investment (PI) policy, project preparation and appraisal, and project monitoring and evaluation.
- The new format of PIP Call Circular requires detailed project information.
- The PIP Database was established to maintain and update records of all public investment projects submitted for the FY2007 PIPP.
- The staff of key central and selected sectoral ministries received training in sector development planning, project preparation and appraisal, and methods of project cost-benefit analysis.

Target 2. Number of key personnel in fiscal policy and administration trained with USG assistance

Indicator 1. 50 project analysts

Actual: 167 project analysts were involved in five rounds of multi-week programs on integrated (cost-benefit) project analysis during 2006–2008.

During 2007, MOED substantially improved its institutional capacity in governing economic and capital investment works. The following notable achievements demonstrate the progress made in 2007:

- *Macro-level data analysis and economic forecasting:* building of the Social Accounting Matrix (SAM); preparation of quarterly economic analytical bulletins; and improvement of data for more reliable, consistent economic statistics.
- *Institutional and public investment program:* assistance in improvement of the PIP Call Circular FY2008–2011; training of the newly appointed staff in the PIP Department in MOED; development of the PIPP Database; proposals for a new staffing plan and professional requirements.
- *Legal and regulatory:* assistance in drafting the PIP regulations and underlying operational instructions for PIP policy, project preparation and appraisal, and monitoring and evaluation.
- *Sectors:* assistance to four sectors (agriculture, irrigation, transport, and education) in improving sector strategic planning, operational (medium-term) planning, and project preparation and appraisal using modern cost-benefit analysis techniques.
- *Professional training and study tours:* extensive training on requirements of the PIP Call Circular; integrated project (cost-benefit) analysis; management of MS Excel and Access files; educational PIP-related study tours to Norway and Turkey (twice).
- *Research capacity improvement:* institutional diagnostics, development plan, and research agenda for MOED's newly established ERSRI.

In 2007 MOED started to actively perform new functions—coordinating the macroeconomic policy works (with the National Bank and the Ministry of Finance of Azerbaijan) and regulating the State Public Investment Program. To support MOED's assumption of its new responsibilities, it needs continuing technical assistance and training.

V. CONCLUSIONS AND LESSONS LEARNED

The PIPP helped the Government of Azerbaijan begin the adoption and institutionalization of effective tools to strengthen its long-term planning, macroeconomic analysis, public investment, and project development program. This will go a long way toward improving the developmental impact of Azerbaijan’s public investments. The process still has far to go, but what needs to be done is much more a question of the institutional determination required to introduce and enforce new effective mechanisms of PIP management, and the need to align principal and agent goals rather than shore up technical capabilities. The technical capabilities—including the ability to conduct timely cost-benefit analyses on candidate projects before they are so far down the path of being developed that they have an inexorable life of their own—are being developed. The legal, institutional, and procedural structures are being strengthened. But the reality is that there are still strong incentives for projects to be implemented for reasons other than their impact on economic welfare and growth. This is, frankly, a challenge even in the most transparent of environments.

Implementing the PIPP has been challenging for a variety of reasons, not the least of which was the institutional differences between MOED and MOF. MOED is responsible for developing and managing medium-term plans and, particularly for our project, the PIP; MOF, for the MTEF and development of the budget. Because developing the MTEF and a coherent PIP relies heavily on very tight collaboration and sharing of data between these two ministries, anything that interferes with this collaboration will cause, at a minimum, inefficiencies.

Developing the trust of counterpart agencies, in particular MOED, was challenging. Initially this was brought about thanks to the strong professional respect between the project’s first Chief of Party, Mete Durdag, and the Deputy Minister. Subsequently, when the project’s Senior Public Expenditure Economist, Ms. Sevinj Hasanova, became Deputy Minister, that relationship of trust was significantly strengthened. This did not come without some ownership tensions over the specific nature of assistance to be provided to MOED, MOF, and line ministries. The best plans for a project rarely anticipate the kinds of assistance that are needed at any particular moment by a counterpart, which, as part of building up trust and confidence, must be responded to to the extent possible.

The project never fully took advantage of the permanent presence it had established at MOED. Fortunately, because of Dr Durdag’s relationship with MOED and because of the hiring of Ms. Hasanova as Deputy Minister, the relationship impact of this was mitigated. Just the same, projects do gain some institutional insights and traction from being physically co-located with counterparts. The project attempted to balance the need for operational and administrative efficiency with the need for access. In hindsight, we may not have lost as much project administrative efficiency by locating on MOED premises as thought, and may have gained more programmatic and institutional traction.

The PIPP operated for its first two years without a clear document describing the relationship between USAID and the primary counterpart. A memorandum of understanding on technical assistance in public investment policy between the governments of the United States and Azerbaijan was signed during the third year of the PIPP activities, on February 7, 2007. However competent and tactful the contractor

might be, its contractual obligations were deliverable only if the Government of Azerbaijan expressed adequate political commitment to implementing the reforms. In this context it is worthwhile to mention that in fall 2005, shortly after the project launched and its workplan was approved, the key counterpart Minister of MOED was removed and arrested. This situation paralyzed the activities of MOED, which had been poised for major reorganization and building renovation in 2006. The Center of Economic Reforms designated by our counterparts was restructured into the ERSRI, and its staff had not yet been recruited even in early 2008.

Despite notable progress in 2007, sustained technical assistance is required to implement institutional capacity to successfully manage PIP. Training of project analysts in preparing public investment projects is an important capacity-building effort.

The PIPP staff, in collaboration with MOED, helped to draft the PIP Regulation and Operational Instructions in support of the implementation of PI policy and programming. The technical and legal opinions needed for these instructions to take effect will likely take some time to be completed, as the new requirements must be synchronized with the existing executive chain of command, Budget System Law requirements, technical capacities, and procedures.

The PIPP cooperated with USAID, the U.S. Embassy, and international financial institutions to promote the idea of establishing the High Policy Planning Committee (HPPC). If the HPPC had been established, it would have provided the impetus toward the rigorous implementation of regulations and procedures necessary for effective PIP planning and management. In the absence of HPPC or adequate executive resolution (such as a decree from the President) on further measures to enhance cooperation on public policy and on project preparation and management between the stakeholder agencies—the central economic agencies above all—the PIPP could do no more than support making the maximum amount of changes possible at the MOED level to ensure this agency a proactive role in the process.

VI. RECOMMENDATIONS

As a result of our 32 months of project implementation, we believe we can make a number of recommendations for subsequent initiatives to productively build upon the achievements of the PIPP. Projects like PIP can sometimes catalyze improved cooperation between ministries such as MOED and MOF, by showing how both of them can improve their performance in fulfilling their mandates by working together more effectively. Steering committees can be an important part of this process.

The project should seek not just to have an office in MOED, but to co-locate its entire office within MOED. It is true that finding and setting up project space within MOED, as well as operating an office there, will almost certainly entail substantial administrative time, effort, and inefficiencies. But the programmatic advantages may more than compensate, provided that MOED staff are assigned to work with the project on a daily basis. Unfortunately, the PIPP experienced difficulties in trying to do this. MOED's premises were put under major renovation in fall 2005, and even after their completion, the project staff could not get more than a single room, which is not enough for productive operations.

The PIP reform revealed a series of regulatory, administrative and budget reform issues that still require resolution to ensure efficient PIP expenditures. To name several core requirements:

- COM, MOED, MOF and sectoral ministries must genuinely cooperate to establish standards for preparing sound sectoral strategic (long-term) and operational (medium-term) development plans and to plan investment projects based on established performance benchmarks.
- MOF needs to cooperate with MOED in establishing sectoral expenditure ceilings and tracking impact from project investments on the recurrent budget.
- MOED should de facto be empowered institutionally to lead preparation of sector-specific projects from their early stages and to establish standards of quality and requirements for project preparation and appraisal using cost-benefit analysis. For this purpose MOED staff should establish a sustained partnership with sector line ministries, helping them, through advice and recommendations, to prepare project proposals in line with the Government of Azerbaijan's requirements.
- MOED and sectoral agencies must cooperate actively in determining priority projects and establishing merit-based criteria for ranking proposed qualified projects when reviewing them for inclusion in PIP.
- Cost structure for project preparation must be revised, as it does not represent market prices and is based on inflated 1991 prices.
- Procurement procedures and quality control over project implementation are imperative for effective use of public expenditures.

Equally if not more important, the next phase of the PIPP, working in conjunction with MOED as a reform champion, needs to take a deeper look at impediments to selecting projects based on their economic return in terms of both political and institutional economics. The PIPP needs to collaborate closely with other projects to ensure that the gains that it has helped bring about can be sustained and not easily reversed in subsequent administrations. It needs to solidify the technical gains it has achieved by effecting improvements in transparency and accountability to the extent that its counterparts are willing to

address these aspects of economic governance. In the Deputy Minister, whose trust the PIPP carefully earned, subsequent projects have an ally in this process, and perhaps this and similar relationships, as much as any supply of technical training, constitute the legacy left by the PIPP.

ANNEX A: PIPP SUCCESS STORIES

February 2006

CIVIL SERVICE EMPLOYEES RECEIVE PUBLIC INVESTMENT TRAINING

The USAID-supported Public Investment Policy Project (PIPP), jointly with the Azerbaijan Center of Economic Reforms (CER), successfully completed the fourth round of the formal Training Program on topics of integrated project (cost-benefit) analysis in December 2006. A total of 171 public service employees from the Cabinet of Ministers, the Ministry of Economic Development, the Ministry of Finance, and cooperating sectoral line ministries learned modern techniques and methods of public investment policy-making and programming. The Training Program, launched in February 2006, is being executed under the framework of the PIPP's objective to prepare the necessary cadre of civil service employees capable of conducting complex analysis of public investment projects.



More than 170 cabinet and ministry staff expanded skills and knowledge through the comprehensive training provided by USAID through its Public Investment Policy Project

Each round of the PIPP-led Training Program consisted of two-day workshops for the mid-level management on macroeconomic and sector policy issues, sector development and budget planning, and Public Investment Program (PIP)-related topics. The formal workshop was then followed by the 10-day formal training for the sector practitioners—technical staff from the central and sectoral ministries—on sector development planning, project cycle management, integrated project (cost-benefit) analysis and completion of the newly approved format of the PIP Call Circular. The trainings rested on the interactive dialogue with the participants involved in discussions on the macroeconomic development, budget medium-term expenditure planning, sector development objectives, and programs/projects preparation.

As a result of this undertaking, the PIPP trained 74 public service executives and 97 technical practitioners. An integral part of the Training Program was work on preparation of the Azerbaijan-specific case studies for productive and social sectors with consequent preparation of project concept papers, pre-feasibility studies, and conducting of technical, financial, economic, distributional and other components of integrated project analysis. The trainees also practiced technical exercises, pass midterm and final exams, and prepared major case studies.

The trainees were awarded Certificates of Completion of the PIP Training Program and are expected to use the new techniques and skills they gained in their day-to-day work in public investment project preparation and appraisal. The management of central and line ministries has expressed a deep appreciation to USAID and the Public Investment Policy Project for their significant contribution to the institutional capacity building of the Azerbaijan government agencies.

April 2006

HIGH-LEVEL WORKSHOP ON PUBLIC INVESTMENT POLICY AND EFFICIENCY

April 12, 2006. Baku, Azerbaijan: The Azerbaijan Public Investment Policy Project (DAI/PIPP), the USAID partner project, managed by DAI with the support for the U.S. Embassy and USAID, successfully organized and conducted the High-level Policy Conference involving top-level government officials in Azerbaijan and international donor community.

The conference was led by the Honorable Reno Harnish, the U.S. Ambassador to Azerbaijan; James Goggin, USAID Country Director for Azerbaijan; Avez Alekberov, Minister of Finance; Heydar Babayev, Minister of Economic Development; Elman Rustamov, Chairman of the National Bank of Azerbaijan; and Valeh Alasgarov, Deputy Speaker of the Azerbaijan Parliament (Milli Mejlis). In their opening and closing statements, the top-level leaders emphasized on a need to consolidate efforts and achieve progress in issues of macroeconomic planning, budgeting and investment planning for the benefit of people of Azerbaijan. Over 40 representatives from 33 organizations representing the Government of Azerbaijan, international financial institutions, diplomatic missions, and businesses participated in the event.

The conference was well received by all the participants, who expressed an appreciation to DAI/PIPP for their success in organizing such an important economic policy forum. DAI/PIPP was pleased to receive a high appreciation from U.S. Ambassador Harnish, Mr. Goggin, and senior Azerbaijan government officials. The IMF Resident Representative in Azerbaijan, Basil Zavoico, praised the organizers and stated it was “by far the most successful policy dialogue he had participated in though his entire career in IMF.” Following the event, DAI/PIPP COP Dr. Mete Durdag invited the USAID CTO Jeffrey Minott and the DAI/PIPP staff to the business luncheon to discuss the follow up plans and actions.

The Conference discussions emphasized on the importance of integration of planning, budgeting and investment programming in Azerbaijan. Four key speakers, representing international community and the Government of Azerbaijan (GOAz), made presentations of their agencies’ views on the issues and proposed an action plan to achieve progress in planning, budgeting and investment programming. Topics of improved integration of planning, budgeting and investment programming are in the direct technical scope of the DAI/PIPP in Azerbaijan.

The key presenters were:

Mr. Christos Kostopoulos, the World Bank Senior Economist for Azerbaijan, made a presentation on the importance of having a common National and Sectoral Development Framework for the State Program for Poverty Reduction and Social Development, State Budget and the Public Investment Program. The speaker emphasized on a need to synchronize the budgeting process with the macroeconomic goals and objectives, funds prioritization in allocation, and ensure sufficient public spending. Mr. Kostopoulos emphasized that good macroeconomic planning, sector needs prioritization and budget efficiency were the key prerequisites toward transition to a modern result-oriented performance-based budgeting.

Dr. Mete Durdag, DAI/PIPP Chief of Party, discussed and proposed optimal institutional and procedural arrangements for linking planning, public investment policy and budgeting, and Dr. Durdag proposed to establish the High Policy Planning Commission (HPPC) to define macroeconomic priorities in the long- and medium-term horizon, set sector development priorities and budget ceilings for investment

programming. The speaker suggested issuing a Joint Call Circular to align all budget requests, including for investment needs, with the macroeconomic, poverty reduction goals and sector development objectives.

Mr. Azer Bayramov, Deputy Minister of Finance, emphasized the need for quality changes in the budget process and alignment of preparation and execution in the framework of the macroeconomic goals and medium-term objectives. He emphasized the need for the sector ministries to develop long- and medium-term development plans which will involve clear formulation of sector development goals. He also called for review of optimal, cost-effective methods to achieving the established goals.

Mr. Shahin Sadigov, Macroeconomic Policy and Forecast Department Head, Ministry of Economic Development, also emphasized the need for establishing a High Policy Planning Council to clearly formulate medium-term economic framework and, jointly with central ministries, define sector development priorities and funding ceilings for recurrent and capital outlays. The speaker emphasized the need to improve the Guidelines for Preparation of Public Investment Program. These Guidelines and an Annotated Manual will be one of major activities involving DAI/PIPP technical assistance. Preparation of well-defined rules for project preparation will involve conducting of Integrated Project Analysis, projects' screening and prioritization for implementation.

Open discussion among the representatives from IMF, World Bank, the British Embassy, the British Petroleum Corporation, DAI/PIPP and others supported the efforts of GOAz to improve macroeconomic planning policy, sector strategic development, budgeting and investment programming. GOAz authorities (from the Ministry of Finance, the Ministry of Economic Development, the national Bank of Azerbaijan, and others) and Milli Mejlis (Parliament) were in agreement with the intentions and the proposed solutions proposed by the conference attendees. The speakers offered technical assistance and support by way of preparation and implementation of the needed actions.

During the conference a strong consensus was reached that, following this conference, Government of Azerbaijan will actively collaborate with the international donor community and the DAI/PIPP in addressing the issues discussed.

May 2006

GOVERNMENT OF AZERBAIJAN INTERESTED IN TURKISH EXPERIENCE

USAID's Public Investment Policy project, in close collaboration with World Learning Incorporation and support from Turkish International Cooperation Agency, brought a delegation of 16 practitioners from the Government of Azerbaijan's (Government of Azerbaijan) Ministry of Economic Development, Ministry of Finance, Ministry of Education, and Ministry of Agriculture, Committee for Irrigation for Water Supply to Ankara, Turkey as a follow-up to a USAID-sponsored 2006 study tour and subsequent multi-week training on Public Investment Analysis and Management. The purpose of the trip was to expose the government practitioners to another country in its region where a public investment program is being successfully implemented, and help them gain first-hand knowledge and skills from their Turkish counterparts.

The Azerbaijani delegation had a number of practical trainings at the State Planning Organization (Turkey's equivalent of Azerbaijan's Ministry of Economic Development), and full-day workshops at the Ministry of Finance and State Treasury Department. The PIPP also arranged half-day internships for a few Government of Azerbaijan practitioners in relevant departments of the State Planning Organization. The Government of Azerbaijan delegates expressed their appreciation for what they felt was a very useful trip, and admitted that their experience would help them to more effectively and efficiently implement Azerbaijan's own public investment policy program.



A group of senior government officials visited Turkey's central agencies to learn from their economic management experience

Photo Credit: Sabira Shihaliyeva

November 2006

USAID BOOSTS AZERBAIJAN'S ECONOMIC RESEARCH CAPACITY

The USAID-supported Public Investment Policy (PIP) Project is a technical assistance project which helps 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 on 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 \$16,000.

The computer equipment will further the CER's institutional capacity for performing economic research and training functions more effectively. CER is the partner organization to the PIPP in organizing and conducting multi-week training courses for the Azerbaijan public expenditure analysts. Over the past year, 171 senior executives and practitioners have participated in workshops and multi-week trainings on Integrated Project (Cost-Benefit) Analysis.

A ceremony marking the donation was attended by Scott Taylor, USAID Country Coordinator for Azerbaijan; Mete Durdag, PIPP's Chief of Party; Sevinj Hasanova, Deputy Minister of Economic Development; Namiq Tagiyev, CER Director, the training program participants, experts, and mass media representatives.

Speakers expressed their appreciation of the concrete results achieved as a result of the USAID-rendered technical assistance in terms of better economic policy planning, sectoral development programs formulations and public expenditure management in Azerbaijan.



State-of-the-art computers are among the contributions USAID has made to help the Ministry of Economic Development strengthen its economic research function

April 2007

AZERBAIJAN GOVERNMENT INTERESTED IN NORWEGIAN EXPERIENCE

The USAID-supported Public Investment Policy Project, in close collaboration with the Norwegian Embassy in Baku and the World Learning Institute (WLI), brought a delegation of senior officials from the Government of Azerbaijan to Norway to demonstrate the successes that country has achieved as a result of efficient, sound economic management.

The Azerbaijani delegation, who together have responsibility for macroeconomic, fiscal and monetary policy, finance, oil fund management as well as public investment policy and programming, participated in a series of meetings and fruitful discussions at Norway's Ministry of Finance, National Bank, Oil Fund, Ministry of Transport, and the Ministry of Oil and Energy, and Statistics. The Azerbaijani officials acknowledged that Norway's experience was instructive and could help Azerbaijan more effectively and efficiently develop and implement its Public Investment Policy Program.

USAID's Public Investment Policy Project works to help the Government of Azerbaijan in making the most efficient use of its financial resources by providing technical recommendations and implementation assistance to strengthen the linkages among Azerbaijan's national development objectives, municipal development goals, and available public resources.



Calling their meetings "instructive," senior officials from the Government of Azerbaijan will consider Norway's approach as they develop a Public Investment Policy Program for their country

Photo Credit: Sabira Shihaliyeva

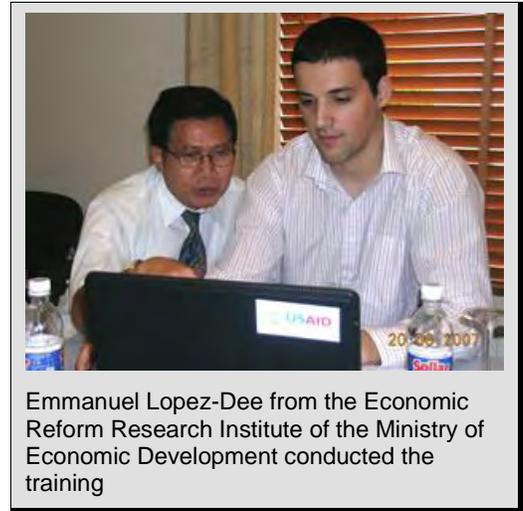
July 2007

USAID SUPPORTS WORKSHOP SESSIONS ON COST-BENEFIT ANALYSIS

The USAID Public Investment Policy (PIP) Project conducted four half-day interactive, practical training sessions on cost-benefit analysis in Azerbaijan. The workshops were aimed to deepen understanding of the principles and techniques of project development and analysis and, at the same time, facilitate practical application in a “learning-by-doing” environment.

The workshop program was designed based on a case study drawn from the World Bank-funded Samur-Apsheron Irrigation Project and focused on the understanding and application of various tools, techniques and approaches to project cost-benefit analysis. The delivery of the workshop via the case study method and the step-by-step process of project evaluation were met enthusiastically by the trainees.

These workshops are expected to result in the introduction of interrelated concepts and tools necessary for project cost-benefit analysis in a manner that will be useful and acceptable to both government oversight and line ministries.



October 2007

AZERBAIJAN, KAZAKHSTAN SHARE ECONOMIC MANAGEMENT EXPERIENCE

In October 2007, USAID's Public Investment Policy (PIP) Project facilitated an educational study tour for a group of six high-level officials from Azerbaijan's Ministry of Economic Development (MOED) to Astana, Kazakhstan. The MOED delegation, headed by Deputy Minister Sevinj Hasanova included department and division chiefs in charge of macroeconomic forecasting and public investment. The purpose of the tour was to learn more about the progress achieved in Kazakhstan through efficient planning, fiscal and investment policies. Kazakhstan's experience is valuable due to regional and traditional economic, political and social similarities, as well as for its notable experience in placing rigid discipline in public investment project preparation. Its experience as a resource-rich country and its management of vast oil and gas revenues is particularly relevant for Azerbaijan.

During the study tour, the delegation held a series of meetings with high level officials and technical staff at the Ministry for Social Protection and Labor, the Ministry for Economy and Budget Planning, Ministry for Industry and Trade, the Ministry of Education, the President's Stipend Program for Education Abroad, "Kazina" the Fund for Sustainable Development, "Samruk" the Holding for the Management of the State Assets, and the Center for Economic Research.

MOED officials said they learned a great deal from the informational exchange, noting that the experience of Kazakhstan and lessons learned were very useful as they reform public investment planning and programming in Azerbaijan.



Senior officials from the Ministry of Economic Development visited their Kazakh counterparts to learn from their economic management experience

Photo Credit: Ramil Maharramov

December 2007

AZERBAIJAN STRENGTHENS ITS INSTITUTIONAL CAPACITIES IN PUBLIC INVESTMENT PROJECT PREPARATION

During December 3–14, 2007 the USAID-funded Public Investment Policy Project facilitated a training program on Investment Appraisal and Risk Analysis for public servants from 10 state agencies. The ceremony for the training program was opened by Professor Arnold Harberger, USAID Chief Economist, who emphasized the importance of applying cost-benefit analysis techniques to project appraisal and management of public investments.

The training team was led by Dr. Glenn Jenkins—a world-recognized practitioner in the field of project preparation, appraisal and management. Until recently he managed the specialized Program on Project Appraisal and Management at Harvard University and has taught this course in over twenty five countries.

Since 2005 the Public Investment Policy Project, in collaboration with the Ministry of Economic Development of Azerbaijan, has been facilitating the reform of capital investment management through long-term planning, capital budget formation, preparation and appraisal of public investment projects. To achieve efficiency and effectiveness from the Public Investment Program it is imperative to appraise project proposals early, and consider potentially viable projects for their net present value over time, economic rate of return, social-economic development necessity, and fiscal sustainability.

With these needs in mind, the training provided hands-on training in best-practice techniques for project preparation, appraisal and risk analysis. Using a major case study of a power sector project, the participants were trained in calculating financial and economic net present values, internal rates of return, and performing practical assignments such as adjusting cash (resource) flows to market distortions and running risk analysis. The new skills will be applied to the preparation and appraisal of individual public projects and will improve public investment planning and the use of limited public investment resources.



ANNEX B: PIPP TRAINING ACTIVITIES

As of February 21, 2008

#	Task	Course	Timeframes	Trainer	Agencies	Participants
1.	Cost-Benefit Analysis Trainings	1. Round I Management Training	1. Feb 6–7, 2006	1. Richard Anson	1. 9	1. 20
		2. Round I Technical Training	2. Feb 8–28, 2006	2. Richard Anson	2. 8	2. 23
		3. Round II Management Training	3. Mar 13–14, 2006	3. Richard Anson	3. 8	3. 15
		4. Round II Technical Training	4. Mar 15–Apr 5, 2006	4. Richard Anson	4. 7	4. 19
		5. Round III Management Training	5. Nov 14–15, 2006	5. Mete Durdag	5. 13	5. 25
		6. Round III Technical Training	6. Nov 16–30, 2006	6. Mete Durdag	6. 14	6. 27
		7. Round IV Management Training	7. Dec 4–5, 2006	7. Mete Durdag	7. 14	7. 18
		8. Round IV Technical Training	8. Dec 6–19, 2006	8. Mete Durdag	8. 11	8. 24
		9. Cost- Benefit Analysis Training	9. Jun 18–21,2007	9. Emmanuel Lopez Dee	9. 9	9. 18
		10. High Level Workshop on Integration of Planning, Budgeting and Investment Programming	10. Apr 12, 2006	10. Mete Durdag	10. 20	10. 35
		11. Project Development Training (PIP CC)	11. Apr 16, 2007	11. Nigar Ismaylova, Ramil Maharramov	11. 10	11. 18
		12. Project Development Training CIWE (PIP CC)	12. Jun 14, 2007	12. Nigar Ismaylova, Ramil Maharramov	12. 5	12. 2
		13. Project Development Training MOA (PIP CC)	13. Jun 19, 2007	13. Nigar Ismaylova, Ramil Maharramov	13. 3	13. 13
		14. IPA Training for MOA by Richard Anson	14. Sept 12–13, 2007	14. Richard Anson	14.	14. 31
		15. Investment Appraisal and Risk Analysis Training by Glenn Jenkins	15. Dec 3–14, 2007	15. Glenn Jenkins, CRI	15.	15. 23
		16. Investment Appraisal and Risk Analysis Training Round II by Glenn Jenkins	16. Feb 4–15, 2007	16. Glenn Jenkins, CRI	16.	16. 14
2.	Budget Training	1. Budget Training MOED	1. Apr 20–21, 06	1. Hadji Husseyinov		
3.	Institution-Building Trainings	1. English language training for MOED	1.	1. ETI	1. 1	1. 24
		2. Excel and Access Microsoft training for MOED	2.	2.	2. 1	2. 12
4.	Sector Development	1. Sector Development Training for MOED	1. Oct 24, 2005	1. Mete Durdag, Sevinj Hasanova	1. 1	1.
		2. Sector Development Training for MOT	2. Dec 02, 2005	2. Mete Durdag, Ron Quist	2. 1	2. 5

#	Task	Course	Timeframes	Trainer	Agencies	Participants
	Trainings	3. Sector Development Training for MOENR	3. Dec 21, 2005	3. Hadji Husseynov, Ron Quist	3. 1	3. 4
		4. Sector Development Training for MOYST	4. Dec 16, 2005	4. Hadji Husseynov, Ron Quist	4. 1	4. 2
		5. Sector Development Training for MOIE	5. Dec 09, 2005	5. Mete Durdag, Ron Quist	5. 1	5. 3
		6. Sector Development Training for MOE	6. Jan 24, 2006	6. Mete Durdag, Sevinj Hasanova	6. 1	6.
		7. Sector Development Training for MOE	7. Jan 27, 2006	7. Mete Durdag, Sevinj Hasanova	7. 1	7.
5.	Macroeconomic Trainings	1. Workshop on Revised Minimum Standard Model—Extended (World Bank) (RSM-X)	1. Dec 12–20, 2005	1. Thilak Ranaveera, World Bank	1. 4	1. 15
		2. Macroeconomic Framework Presentation for MOED	2. Jan 25, 2006	2. Mete Durdag	2.	2.
		3. Presentation of SAM Model for MOED	3. Apr 11, 2007	3. Janusz Szyrmer		
6.	Study Tours	1. Study Tour Ankara	1. Jun 26–30, 2006	1.	1. 9	1. 14
		2. Study Tour Oslo	2. Mar 26–30, 2007	2.	2. 8	2. 9
		3. Study Tour Ankara	3. May 21–26, 2007	3.	3. 6	3. 16
		4. Study Tour Astana	4. Oct 8–12, 2007	4.	4. 1	4. 6
7.	Trainings of Trainers	1. Training of Trainers	1. Apr 3–6, 2006	1. Patricia Garcia	1.	1.
		2. Training of Trainers	2. Jan 24–25, 2007	2. Patricia Garcia	2.	2.
8.	Trainings for local financial officials	1. USAID Community Development Activity Regional Conference (Sheki)	1. Jun 28, 2006	1. Hadji Husseynov	1. 15	1. 60
		2. USAID Community Development Activity Regional Conference (Lenkoran)	2. Jul 06, 2006	2. Hadji Husseynov	2. 21	2. 80
		3. USAID Community Development Activity Regional Conference (Guba)	3. Jul 26, 2006	3. Hadji Husseynov	3. 16	3. 60
		4. Participatory Processes in Public Investments Training for MOENR (AZ)	4. Nov 01, 2006	4. Hadji Husseynov	4. 1	4. 10
9.	Policy Trainings	1. Presentation PIPP Activities for MOIE	1. Jun 01, 2005	1. Nofal Rzayev	1.	1.
		2. Presentation PIPP Activities in US Embassy	2. Jul 06, 2005	2. Mete Durdag	2.	2.
		3. PIPP Opening Conference	3. Aug 26, 2005	3. Mete Durdag	3. 45	3. 98
		4. Presentation PIPP Activities for Deny Robertson, Director of Caucasus Mission, USAID	4. Jan 06, 2006	4. Mete Durdag	4. 1	4.
		5. Presentation PIPP Activities for Scott Taylor, USAID Coordinator	5. Sept 22, 2006	5. Mete Durdag	5. 1	5. 2
		6. Presentation PIPP Activities for Scott Taylor	6. Mar 07, 2007	6. Janusz Szyrmer	6. 1	6. 2

Total: 747 participants, 43 training activities and workshops

ANNEX C: PIPP/DAI TASKS AND DELIVERABLES

#	Task	Deliverables (contract-specific)	Content and Source	Responsible
1.	Review with MOED the contents of the PIP for the FY2005 and the documentation that was supplied for the underlying project proposals that were submitted and vetted during 2004 to determine the PIP budget and the MTEF for 2005–08, and subsequent years	<p>a) Documentation on cases where the project documentation or justification may have been inadequate and may require further information, discussions with the governmental inits that submitted the request, or additional work on preparation and justification of the project</p> <p>b) Suggestions on possible changes in Government of Azerbaijan procedures and documentation requirements for PIP proposals for FY2006–09 and subsequent budget years.</p>	<p>Deliverable No.1: A</p> <p>A.1 HPPC Technical Note</p> <p>A.2 Linkage Between Foreign Funded Investment Projects and Budget</p> <p>A.3 Preparing the Medium-Term Macroeconomic Framework for 2007–2010</p> <p>A.4 PI Projects Budgetary Disbursements 2006</p> <p>A.5 Review of Main Shortcomings of the Budget Process</p> <p>A.6 Memo: Azerbaijan 2006 State Budget Allocation and Disbursement for Capital Investments</p> <p>A.7 List of Public Investment Projects for 2007</p> <p>Deliverable No.1: B</p> <p>B.1 PIP Call Circular Fy 2007–10</p> <p>B.2 PIP Call Circular Fy 2008–11</p> <p>B.3 HPPC Technical Note</p> <p>B.4 SSDP Technical Note</p> <p>B.5 PIPP Manual</p>	Samim Cilem, Nigar Ismaylova
2.	Review skills of current and prospective new MOED staff, will assist in the recruitment of new personnel for numerous vacancies	<p>a) proposed staffing plan</p> <p>b) Scope of work for PIP personnel</p> <p>c) Training needs' assessment (TRG)</p>	<p>Deliverable No. 2: A</p> <p>A. 1 Training component of Diagnostic Report</p> <p>A. 2 Training needs assessment (May 2005)</p> <p>A. 3 Note on MOED Staff Plan for the PI Department</p> <p>Deliverable No. 2: B</p> <p>B.2 Functional and Institutional Report for MOED</p>	Sabira Shihaliyeva
3.	Develop and deliver a formal training program on economic analysis and appraisal of investment projects for key personnel: from MOED, selected line ministries, and from local state and private universities	Training materials from workshops for key decision-makers and formal multi-week training program	<p>1. Training of the State Budget for MOED by Hadji Husseynov, April 20–21, 2006</p> <p>2. TOT, April 3–6, 2006</p> <p>3. TOT, January 24–25, 2007</p> <p>4. English language training for MOED</p> <p>5. Excel and Access Microsoft training for MOED</p> <p>6. PI Projects Database Presentation, May 11, 2007</p>	Sabira Shihaliyeva

#	Task	Deliverables (contract-specific)	Content and Source	Responsible
			<p>7. Sector Strategic Development Planning Presentations for Line Ministries</p> <p>8. Regional Conferences on Participatory Processes</p> <p>9. Round I Management Training, February 6–7, 2006</p> <p>10. Round I Technical Training, February 8–28, 2006</p> <p>11. Round II Management Training, March 13–14, 2006</p> <p>12. Round II Technical Training, March 15- April 5, 2006</p> <p>13. Round III Management Training, November 14–15, 2006</p> <p>14. Round III Technical Training, November 16–30, 2006</p> <p>15. Round IV Management Training, December 4–5, 2006</p> <p>16. Round IV Technical Training, December 6–19, 2006</p> <p>17. High Level Workshop on Integration of Planning, Budgeting and Investment Programming, April 12, 2006</p> <p>18. Trainings on Public Investment Projects Development Cycle (PIP Call Circular) Training April 16, June 14, June 19, 2007</p> <p>19. Advanced Training- Workshop on Project Cost-Benefit Analysis (Irrigation Sector), by Emmanuel Lopez Dee, June 18–21, 2007</p> <p>20. Training Workshop on Strategic Integrated Project Analysis: Road Map of Key Concepts and Application for Azerbaijan’s Agriculture Sector by Richard Anson, September 12–13, 2007</p> <p>21. Investment Appraisal and Risk Analysis Training by Glenn Jenkins, December 3–14, 2007</p> <p>22. Investment Appraisal and Risk Analysis Training Round II by Glenn Jenkins, February 4–15, 2007</p> <p>23. Workshop on RMSM-X Models for Macroeconomic and Fiscal Management in Moscow, December 12–20, 2005</p> <p>24. Macroeconomic Framework Presentation for MOED, January 25, 2006</p> <p>25. Presentation of Macroeconomic Data System by Anna Ansmits and Flow of Funds for MOED, July 20, 2007</p> <p>26. Presentation of Financial Programming Model by Mario Gutierrez, November 14, 2007</p> <p>27. Study Tour Ankara, June 26–30, 2006</p> <p>28. Study Tour Oslo, March 26–30, 2007</p> <p>29. Study Tour Ankara, May 21–26, 2007</p> <p>30. Study Tour Kazakhstan, October 08–11, 2007</p>	

#	Task	Deliverables (contract-specific)	Content and Source	Responsible
4.	Provide professional advice and on-the-job training for MOED staff through Contractor experts' participation in MOED's review of PIP requests received from technical ministries during the Government of Azerbaijan's annual budget preparation process	Documentation on MOED review of the PIP submissions	<ol style="list-style-type: none"> 1. Functional & Institutional Review of MoED 2. Diagnostic Review of Sectoral Strategic and Investment Planning & Implementation in Line Ministries 3. Preparation of the Sectoral Planning Framework of PIP 4. Developing ERSRI Institutionalization and Capacity Development Program including the annual action plan 5. Preparation of the Strategic Development Plan for ERSRI (Rick Ernst) 	Nigar Ismaylova, Ramil Maharramov
5.	If asked by CTO, conduct independent reviews or assessments of public infrastructure programs and projects that are relevant for the current and future Public Investment Programs.	Review and assessment of infrastructure projects, if requested by CTO	<ol style="list-style-type: none"> 1. Diagnostic Review, May 2–21, 2005 2. Sector diagnostics for strategic development plans preparation, 2006 3. Sector project preparation practices, May 2006 4. Consultant's Assessment of the Cost-Benefit Analysis (CBA) Training Program, June 18–21, 2007 by Emmanuel Lopez-Dee 5. Consultant's Assessment of the Agriculture Sector Strategic Development Plan, September 2007 by Richard Anson 6. Energy wind-power project cash flow profile and CBA 7. Recommendations for Cost-Benefit Methodology for Project Appraisal in Education Sector 	Andrei Parinov, Elchin Rashidov
6.	Provide advice and assistance to the Minister and Deputy Minister of MOED and others in their formulation, amendment, and implementation of Azerbaijan's long-term development plans	Documentation and comments to the Azerbaijan long-term development plans	<ol style="list-style-type: none"> 1. Diagnostic Review, May 2–21, 2005 2. HPPC technical note 3. SSDP technical note 4. Participatory Report 5. Improving policy dialogue within Government of Azerbaijan report 	Nigar Ismaylova
7.	Other documentation in support for the core tasks' implementation	<ol style="list-style-type: none"> a) Results reports on strengths and weaknesses of the proposed PIP budget plan (produced within 15 days after its annual submission by the President to the Parliament; b) Training curricula, presentation materials and case studies from the multi-week formal course on economic analysis and appraisal of investment projects; 	<ol style="list-style-type: none"> 1. Capex Profile 2006–15 2. Comparative PIP Analysis (Azerbaijan vs Kazakhstan), February 21, 2007 3. Matrix of comparative PIP analysis, (Azerbaijan vs Kazakhstan), February 21 2007 4. Public Investment Program Preparation and Approval Process: Status and Recommendations, November 2007 5. Project Development Cycle in line ministries 6. Public Investments in Azerbaijan 2004–07 Overview and Trends, February 19, 2007 	Samim Cilem, Nigar Ismaylova

#	Task	Deliverables (contract-specific)	Content and Source	Responsible
		c) Training events	7. Recommendations for Cost-Benefit Methodology for Project Appraisal in Education Sector 8. Review of responses to Call Circular for PIP 2007 9. Estimation of National Parameters (Shadow Prices) 10. Comments on State Program for Poverty Reduction and Sustainable Development (SPPRSD) 2006–10 11. Comments on Targets and Priorities SPPRSD 2006–15	
8.	PIPP Manual		1. PIPP Manual	Summary
9.	Macroeconomic and Sectoral Framework for Public Investment Policy and Program (PIPP)		1. Importance of a Macroeconomic and Sectoral Framework for Public Investment Policy and Program (PIPP) 2. Research on the De-dollarization Process: Impact on the Economy and PIP 4. Draft PI Policy Regulations, Feb 2008 5. Macro SAM Model 6. Macro Flow of Funds Model	Summary
10.	Technical Note on Preparation of Sector Strategic Development Plan		1. Technical Note on Preparation of Sector Strategic Development Plan	Summary
11.	Azerbaijan: Participatory Processes in Public Investments		1. Azerbaijan: Participatory Processes in Public Investments	Summary
12.	Databases		Public Investment Projects Database Macroeconomic Data System Model: Allocation Management System in Education	Sabina Ibrahimova Elchin Rashidov
13.	PIPP Quarterly Performance Reports		1. Quarterly Performance Report: Apr 01-June 30, 2005 2. Quarterly Performance Report: July 01- September 30, 2005 3. Quarterly Performance Report: October 01- December 31, 2005 4. Quarterly Performance Report: January 01- March 31, 2006 5. Quarterly Performance Report: Apr 01-June 30, 2006 6. Quarterly Performance Report: July 01- September 30, 2006 7. Quarterly Performance Report: October 01- December 31, 2006 8. Quarterly Performance Report: January 01- March 31, 2007 9. Quarterly Performance Report: Apr 01-June 30, 2007 10. Quarterly Performance Report: July 01- September 30, 2007 11. Quarterly Performance Report: October 01- December 31, 2007	Summary
14.	Final Reports of STTAs		1. Diagnostic Review, May, 2005 2. Final Report by Tony Iskarpatyoti: Sector Strategic Development	

#	Task	Deliverables (contract-specific)	Content and Source	Responsible
			<p>Plans for Environment and Tourism Sectors, November 2005</p> <p>3. Final Report by Ilgar Mammadov: Azerbaijan: Participatory Processes, Assessment and Recommendations, December 2005</p> <p>4. Final Deliverables by Richard Anson:</p> <p>5. Final Report by Samim Cilem: Set of Documents, March 2006- August 2007</p> <p>6. Final Report by Patricia Garcia: March- April 2006; January 2007</p> <p>7. Final Report by Mark Gallagher: Functional and Institutional Review of the Ministry of Economic Development, September 2006</p> <p>8. Final Report by Rob Varley: Set of Documents, March- April 2007</p> <p>9. Final Report by Rick Ernst: A Strategic Plan for the Economic Reforms Scientific Research Institute (ERSRI), April—May 2007</p> <p>10. Final Report by Ingilab Ahmadov: Improving Policy Dialogue within Government of Azerbaijan on Public Investment Planning, Budgeting, and Management, May 2007</p> <p>11. Final Report by Emmanuel Lopez- Dee: Advanced Training/Workshop on Cost-Benefit Analysis, May- June 2007</p> <p>12. Final Report by Legislative Group: Improvement of Legislation and Regulatory Acts Related to Public Investments, June- September 2007</p> <p>13. Final Report by Anna Ansmits: Development of an Integrated System on Macroeconomic Indicators, June- July 2007</p> <p>14. Final Report by Neal Cohen: Set of Documents, July- August, 2007</p> <p>15. Final Report by Mario Gutierrez: Financial Programming, Concepts and Principles, November 2007</p> <p>16. Final Report by Harold Kurzman: Improvement of Transport Sector Capacity in Medium-Term Development Planning, November 2007</p> <p>17. Final Report by Glenn Jenkins: Improving Institutional Capacity of Host Government Agencies in Integrated Project Analysis Using Modern Cost- Benefit Analysis Techniques, December, 2007</p> <p>18. Final Report by Glenn Jenkins: Investment Appraisal and Risk Analysis Training Round II, February 2008</p> <p>19. Final Report by Jeremy La Pittus, February 2008</p>	
15.	Public Private Partnerships: Opportunities for Azerbaijan		1. Public Private Partnerships: Opportunities for Azerbaijan	Summary