



<b>1. Project Data:</b>		<b>Date Posted :</b> 05/30/2001	
PROJ ID: P041261		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> SAC	<b>Project Costs (US\$M)</b>	SDR52m	SDR52m
<b>Country:</b> Azerbaijan	<b>Loan/Credit (US\$M)</b>	SDR52m	SDR52m
<b>Sector(s):</b> Board: EP - Banking (37%), Compulsory pension and unemployment insurance (17%), Other social services (17%), Other industry (17%), General industry and trade sector (12%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> C2978			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b>	<b>Closing Date</b>	01/31/1999	06/30/1999
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
S. Ramachandran	Alice C. Galenson	Ruben Lamdany	OEDCR
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The objectives were: (1) open domestic markets to competition through trade liberalization, (2) reduce the state's role in economic & commercial activities, (3) develop a sound banking system, and (4) protect vulnerable groups from utility price increases.			
<b>b. Components</b>			
The conditions were detailed and largely process, not output or outcome, oriented (e.g. auditing state owned banks, passing laws etc.). Process oriented conditions may have been appropriate given the dissension within the government over the issues.			
<b>c. Comments on Project Cost, Financing and Dates</b>			
Disbursed in two equal tranches, the first in 1997, and the second in April 1999 (along with a Supplemental Credit for SDR5m following the Russian crisis). The second tranche was delayed by over a year because of slow progress in meeting the conditions			
<b>3. Achievement of Relevant Objectives:</b>			
The ICR notes that despite the conditions being met, the broadly defined objectives were not achieved .			
(1) The government does not now seem committed to free trade . Import duties rose from about 2.75% in 1997 to 4.2% in 1998, and the ICR states that a new tariff code with varying rates was being introduced to protect domestic industry.			
(2) The state's role in the economy has not been reduced . Government employment rose by 7.5% between 1995-99; government expenditures remain around 25% of GDP; administrative corruption is the highest among the 20 transition economies surveyed, privatization has not been transparent, and 80% of the medium and large enterprises remain government owned.			
(3) The banking sector remains dominated by state-owned banks with bad loans . Although foreign banks exist, the ICR notes that they are discouraged from expanding their operations .			
(4) No specific measure or condition was described to protect vulnerable groups from utility price increases . There was a targeted cash benefit scheme to replace the consumer subsidies; but there is nothing described to suggest how the poor are being better targeted .			
<b>4. Significant Outcomes/Impacts:</b>			
Over 500 firms (mostly small) were privatized, and this may have contributed to the private sector share in GDP doubling from 25% in 1996 to 50% in 1998.			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
This was considered a problem project in mid-1998 because there was little progress in implementing the reform measures and the second tranche was delayed . The agreed conditions were subsequently met and the tranche was			

released in April 1999.

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Moderately Unsatisfactory	Reversals in trade tariffs and the failure to achieve the broader objectives .
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Unlikely	The ICR describes reversals in trade policy and a reluctance to allow sound banks to expand .
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

### **7. Lessons of Broad Applicability:**

The broad lesson is that satisfying the agreed tranche release conditions does not ensure that the objectives are met. The ICR notes that the sustainability of the reform may be fragile and the Government ownership of the objectives were weak.

**8. Assessment Recommended?**  Yes  No

**Why?** An audit could provide lessons on developing better tranche release conditions that are more closely linked to the achievement of objectives than to the processes .

### **9. Comments on Quality of ICR:**

The ICR is satisfactory in that the disappointing achievements of the objectives were candidly described, although it did not reach the logical conclusions on ratings . There could have been more and better indicators (e.g. banking deposits to GDP etc.) to help judge if the many banking conditions achieved their purpose .