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IEG **CASCR Review**
Independent Evaluation Group

1. CAS Data

Country: Republic of Azerbaijan	
CAS Year: FY03	**CAS Period:** FY03 – FY05
CASCR Review Period: FY03 – FY05	**Date of this review:** 22 November 2006

2. Executive Summary

The overriding goal of the FY03-05 CAS was to *help Azerbaijan translate its anticipated temporary oil boom into sustained poverty reduction.* The strategy for achieving this goal was organized around four main objectives: (1) *managing the oil boom*, by maintaining macro-economic stability with growth and poverty reduction; (2) *generating jobs and non-oil growth*, focusing on the financial sector, the private sector and agriculture; (3) *improving social services and infrastructure*; and (4) *ensuring that the potential for oil and gas earnings was realized.*

The CAS objectives and structure were directly relevant to Azerbaijan's economic challenges, and its own strategy to meet them, and are also broadly consistent with the most recent CAE. The CAS was a joint IDA/IBRD/IFC strategy and was implemented closely in line with plans.

The overall outcome was *moderately satisfactory*, with substantially faster growth and poverty reduction than anticipated, leading to a *satisfactory* rating for Objective 1. However, progress was minimal or partial in reforming the financial sector, improving the environment for private sector development, improving infrastructure, and restructuring SOCAR (the state oil company), resulting in a *moderately unsatisfactory* rating for Objective 2, and *moderately satisfactory* ratings for Objectives 3 and 4. These ratings differ from those of the CASCR, which rates overall outcome, as well as Objectives 1, 3 and 4 as *satisfactory*, and Objective 2 as *moderately satisfactory*. Both this review and the CASCR rate Bank Performance as *satisfactory*. Significant challenges remain in virtually all areas, especially in terms of maintaining macroeconomic stability, establishing the framework for a competitive, dynamic non-oil economy that is needed to sustain the recent reductions in poverty, and avoiding "Dutch Disease" (the loss of competitiveness in domestic production of non-oil tradable goods due to the excessively rapid real exchange rate appreciation often associated with balance of payments windfalls (such as a surge in oil earnings)). This review rates the risk to development outcomes as *significant* (compared to a CASCR assessment of *likely* sustainability).

IEG concurs with most of the lessons from the CASCR, especially the importance of sustaining a coherent, high quality policy dialogue over time, and the need to find an effective vehicle for that dialogue with the Government on the large remaining reform agenda in the absence of policy based lending. The CASCR's highly positive assessment of the "programmatic approach" to AAA activities may be premature, however, and should be carefully evaluated. This review suggests three additional lessons/recommendations: a more rigorous approach to the CAS results matrix; identification by the Region of strategies to restore momentum to Azerbaijan's apparently lagging reform efforts; and consideration of ways to increase the impact and ownership of analytic work.

3. CASCR Summary

Overview of CAS Relevance:

At the start of the CAS period, Azerbaijan's per capita income (estimated at $720), was still among the lowest in ECA, about 45% of households lived in poverty, and a challenging agenda of structural reform remained. But Azerbaijan was on the threshold of a major transformation: during the CAS period, oil and gas (O&G) output and exports were expected to rise, steadily at first, and then accelerating rapidly after 2005 when major investments in O&G pipelines and infrastructure were to come on line. Azerbaijan's exports and fiscal revenues would grow rapidly, reducing the need for external finance, particularly concessional finance. The region expected (and expects) the boom to be substantial, but short-lived, peaking around 2010 and declining steadily thereafter. This surge in oil and gas revenues was seen as creating major opportunities to stimulate growth and reduce poverty, but also as generating major risks to macro-economic stability and the competitiveness of the non-oil economy – risks that few economies have managed well. At the same time, Azerbaijan would need to continue its transformation from a post-

CASCR Reviewed by:	Peer Reviewed by:	Group Manager
James Q. Harrison Consultant, IEGCR	Zeynep Taymas and Laurie Effron, Consultants, IEGCR	Lily L. Chu, Interim Manager, IEGCR

soviet command economy into one able to compete and grow in world markets, so that, after the oil boom, non-oil growth would generate jobs and incomes, and sustain further poverty reduction.

The overriding goal of the FY03-05 CAS was to *help Azerbaijan translate this temporary oil boom into sustained poverty reduction*. The strategy to achieve this goal was organized around four main objectives: (1) *managing the oil boom*, by maintaining macro-economic stability with growth and poverty reduction, while building institutions for better economic management and poverty focus; (2) *generating jobs and non-oil growth*, focusing on the financial sector, the environment for private sector development, and agricultural and rural development; (3) *improving social services and infrastructure*, including education, health, and social protection, as well as energy sector reform, improved coverage, reliability and efficiency of utility services, and improved transport; and (4) *ensuring that the potential for oil and gas earnings was realized*, by facilitating critical complex investments and restructuring the State Oil Company (SOCAR). The strategy was a joint IDA/IBRD/IFC effort, with IFC focused on Objective 2 (financial sector and private sector) and on Objective 4 (O&G investments).

The CAS was highly relevant in most respects:

- It focused on the critical emerging threats to the economy: the impact that macro instability and Dutch disease would have on a relatively unreformed and uncompetitive non-oil economy, dominated by local elites able to restrict competition and retard reform.
- The CAS was closely aligned with the Government's own poverty reduction strategy as articulated in its State Program for Poverty Reduction and Economic Development (SPPRED).
- The thrust of the FY03-05 CAS was broadly consistent with the recommendations of the most recent Country Assistance Evaluation, which assessed Bank Group assistance up to mid-1999. The CAE recommended strengthening the Bank's focus on poverty reduction and employment generation by improving the environment for private sector development (including in agriculture), and by strengthening the social safety net.
- The overall program of lending and non-lending assistance was consistent with the comprehensive objectives. It was also realistic in that implementation followed plans closely. (See next section).
- Most of the objectives were realistic (except for banking privatization), with some of the more difficult and controversial reforms (such as SOCAR restructuring) incorporated as high case triggers. The majority of high case triggers were clearly defined.
- Although the CAS did not contain an explicit monitoring and evaluation framework, it identified about 70 "expected results" and listed over 100 "monitoring indicators". However, a number of the "results" and "indicators" were not well defined, systematically prioritized, or quantified with baselines or end points. The results/indicators also included a range of intermediate steps, including formal changes in institutions and regulations, whose impact would depend on how they were used or implemented, again making their monitoring and evaluation difficult. Articulating the original results matrix in a more rigorous, quantified and transparent way would have clarified CAS expectations and helped in monitoring progress and assessing results.

Overview of CAS Implementation:

- Lending deliveries closely matched CAS base case plans, including a transition from IDA-only to blend financing (Annex Table 1). Actual lending volume (10 projects for $190.65 million [of which $48mn IBRD]) was slightly higher than the nine projects for $163.9 [$40mn IBRD] million projected in the base case. The higher lending was due to higher performance-based IDA allocations that reflected rising CPIA ratings up to 2003. The composition was closely in line with plans, with modest changes in loan/credit amounts and the addition of a repeater project to assist people displaced by the 1992-94 conflict. In addition, Institution Building Technical Assistance (IBTA)-3, intended to support the Poverty Reduction Support Credit, was not processed since IBTA2 was (and is) still active. Of the three projects assessed by QAG for quality at entry, two were satisfactory and one moderately satisfactory. IFC operations were also delivered as anticipated in the CAS (Annex Table 1A). A High Case Scenario, containing an additional $35 mn of IDA and $35 mn of IBRD lending, did not materialize (see below).
- Non-lending services also followed CAS plans fairly closely (Annex Table 2): of the 19 AAA activities planned, 15 were completed in the FY03-05 period. With the exception of a postponed CEM, all core diagnostic and fiduciary safeguard work was delivered as planned. In addition, four tasks were added to the program, including, importantly, a Health Sector Review [FY05] and a programmatic poverty assessment.
  Of the two AAA tasks rated by QAG, one was satisfactory, the other marginally unsatisfactory. The AAA work supported the policy dialogue and lending, especially in the development of the SPPRED, the PRSP, and the PRSC, and, more recently, in health. In some other areas (*e.g.*, infrastructure), it is unclear how well the AAA tasks underway underpin future lending. It is also not clear if other parts of the AAA program (*e.g.*, the Education Sector Note) have used stakeholder participation and dissemination strategies to ensure adequate ownership and impact.

The CASCR notes that a "programmatic approach" is being used in ongoing public expenditure reviews and poverty analyses. This involves producing a series of shorter, modular interim reports on a longer-term schedule, instead of one larger, integrated comprehensive report at the end of the analysis. While it is hoped the results will be better tailored to the needs of policy-makers and allow more focused and participatory policy dialogue, it is too soon to determine whether this approach will be more effective.

- Portfolio implementation and outcome indicators were uneven. The disbursement rate averaged 21% for the three year period, the same as the Bank-wide and ECA averages, and the proportion of active projects at risk was kept well below ECA and Bank-wide averages, with none at risk at end-FY06. (Annex Table 4).
  In contrast to the active portfolio, of the six projects that closed in the CAS period, only three (50%) had *satisfactory* outcome ratings and *substantial* institutional development impacts (IDI), although five had *likely* sustainability ratings (Annex Table 3). These ratings are lower than Bank-wide and ECA averages for outcomes and for IDI, but are higher for sustainability. In terms of amounts committed, 70% had *satisfactory* outcome ratings and *substantial* IDI, significantly closer to Bank and ECA averages for outcomes, and slightly higher for IDI. Final ISR and ICR ratings were higher than IEG ratings in two cases. All these closed projects had been approved before the CAS period.
- Triggers for the high case were not met. In particular, progress was insufficient in restructuring SOCAR (the state oil company), further reducing energy subsidies, and privatizing the downstream utility sector.
- No specific fiduciary or safeguard issues are raised in the CASCR, but it notes that serious fiduciary problems remain, and cites deterioration in financial management as one of the primary risks to Azerbaijan's development outcomes. Project Implementation Units (PIUs) are used in nearly all operations, in part to insulate Bank-financed operations from weaknesses in the governance of public funds.
- Other factors affecting implementation include the transition in national leadership in late 2003, which appears to have slowed the pace of program implementation somewhat; the controversial elections in November 2005, which also may have distracted attention from reforms, and may undermine consensus behind the Government's poverty reduction strategy; and the much higher than anticipated oil prices (averaging over $40/bbl for the period, versus $26/bbl assumed in the CAS). This latter factor has meant better fiscal and balance of payments outcomes, but has also raised the risks of Dutch disease and lowered incentives for reform.

Overview of Achievement by Objective:

- ***Objective 1: Manage the oil boom – satisfactory results***

This objective was organized around three main components: *fostering broad-based growth* with poverty reduction and macroeconomic stability, developing the *institutional capacity to manage the economy*, and improving the *capacity to monitor poverty and target resources* toward poverty reduction.

The main achievements and limitations during the CAS period include:

- *Economic growth and poverty reduction* substantially exceeded CAS projections, and *macroeconomic stability* was broadly maintained. Total GDP and non-oil GDP grew by about 17% and 14% p.a., respectively, between 2002 and 2005 (compared to CAS projections of 9.5% and 9.1% p.a., respectively). Recent data and analysis indicates the percentage of households below the poverty line dropped from about 45% to 24% between 2002 and 2005 (over 20 percentage points compared to a CAS goal of 5). Inflation averaged 6.5% p.a., remaining below the 10% targeted ceiling for most of the period. Real effective exchange rate appreciation was modest, rising more slowly than regional comparators, and was still below its 2002 level by end-2005.
- However, there is a significant risk that these outcomes will not be maintained. First, as the CASCR notes, the real test for Azerbaijan's macro-economic performance is starting only now. The major acceleration in O&G revenues now underway not only will make the fundamentals of economic management more complex, but also is likely to obscure policy-maker's perceptions of the urgent need for fiscal discipline, structural reforms and restructuring of inefficient enterprises. The 2006 budget is already a cause for concern, with a 66% increase in total spending, driven mainly by substantial increases in public sector wages and social transfers, and a 200% increase in capital spending. The non-oil primary fiscal deficit is thus expected to be over 25% of non-oil GDP in 2006, well above IMF recommendations and the 2005 estimated actual of about 12%. This substantial fiscal stimulus could destabilize the economy, and spark inflationary pressures and real exchange rate appreciation, undermining competitiveness over time. Indeed, inflation had accelerated to over 11% by October, 2006. Second, much of the reduction in poverty appears due to large increases in social transfers and public sector wages, which could become difficult to sustain after the oil boom, unless the non-oil economy is put on a sustainable growth path. Third, as discussed under Objective 2, below, rapid GDP growth has produced little employment so far, with growth in the non-oil economy in large part driven by the oil economy and skewed towards non-tradable activities (real estate, construction, services). Growth in these activities, along with the reported rapid increase in

wages, could be early signs of Dutch disease and undermine non-oil competitiveness and growth.

- *Institutional capacity to manage the economy* is being strengthened by: (i) integrating extra-budgetary funds into the state budget, preparing budgets in line with a new budget law, developing public investment appraisal capacity, and initiating an MTEF approach; (ii) operating SOFAZ (the State Oil Fund) transparently, with published financial statements and annual audits, and all its expenditures incorporated in the budget; (iii) adopting a prudent Long-Term Oil Revenue Management Strategy (LTORMS); and (iv) improving regulations and institutions for fiduciary management in public and private entities through accounting, auditing and procurement reform and establishment of the Chamber of Accounts.
- However, the impact of these important institutional initiatives is limited so far, since they are either still being put in place or are new and untested. As the 2006 budget suggests, the new budgeting approaches are not yet internalized in the line ministries, and prudent implementation of the LTORMS is not assured. In addition, implementation of improved accounting and auditing systems is hampered by delay in staffing the Chamber of Accounts. Time and consistent support will be needed for these institutions to establish a successful track record. Placing these initiatives in a broader strategy of civil service reform may improve their sustainability.
- *Capacity to monitor poverty and target resources for poverty reduction* has been strengthened by establishing a Poverty Monitoring Unit within the Ministry of Economic Development, publishing annual progress reports that monitor the SPPRED, and continuing annual Household Budget Surveys with associated updated poverty analyses. Annual joint reviews by the Bank and IMF have provided a platform for comprehensive policy dialogue. The SPPRED Secretariat has been kept intact despite changes at the ministerial level. It is preparing a new poverty reduction program for 2006-2015, though its publication has been delayed.
- Several factors still hamper monitoring, resource targeting, and ownership of the overall program. First, data weaknesses persist in many areas and are particularly serious in health and labor. For example, the Government's *2005 SPPRED Progress Report*, cited in the CASCR, uses flawed and outdated health data. And weaknesses in the poverty data (due to underreporting by the rich) tend to exaggerate the relative gains of the poor. Second, since the MTEF and Public Investment Program are not yet operational in key line ministries such as education and health, it is difficult to target resources to reduce poverty. Thus the efficiency and poverty-reduction focus of spending are at risk, as the 2006 budget suggests. Finally, ownership of the program, and hence its sustainability, may be limited. The participatory mechanisms used are steps in the right direction, but flaws in the past two elections could reduce trust in government, and undermine the consensus behind its program. However, despite limitations, the SPPRED, its development through a fairly participatory process, and its annual monitoring have been important steps towards consensus building and better program and policy coordination among Government agencies (and donors) that need to be developed further and institutionalized.

- ***Objective 2: Generate jobs and non-oil growth – moderately unsatisfactory results***

Bank group assistance under this objective was organized around *Financial Sector Development*, *Private Sector and SME Development*, *Agriculture and Rural Development*, and the *Environment*.
Results in these areas include:

- Non-oil GDP and exports grew at 14% and 35.0% p.a., respectively, well above CAS expectations, but employment grew at less than 1% p.a., enough to employ only about one-third of the growth in the working age population. Credit to the private sector and DFI grew rapidly (though from very low bases), as did access to financial services, though access outside of Baku remains uneven. Efforts began (under the Financial Sector Development Project) to strengthen the payments system. But beyond modest legal and regulatory improvements, there has been little progress during this CAS period in restructuring the financial sector, improving the business environment and in developing better labor market analysis and data.
- Much of the increase in non-oil GDP growth, credit and DFI has been concentrated in non-tradable goods and services, and may reflect early symptoms of Dutch disease and overheating, rather than development of a viable base for growth and jobs. Moreover, non-oil exports surpassed their pre-independence levels only in 2004, and were still just 9% of non-oil GDP in 2005. Their volatility in direction and composition suggests they may be driven more by transitory advantages (such as surplus pipeline construction equipment) than by a sustainable competitive edge. It is also likely that the oil boom itself has driven much of the non-oil sector growth, which may not be sustained once oil production levels off and declines. Thus these rapid growth rates should not obscure the continuing critical need for prudent macro management and structural reforms. A recent Ex-Post Assessment of IMF programs in Azerbaijan found that "… slow progress in financial and energy sector reforms as well as problems with the business environment and governance raise doubts over the medium-term growth sustainability in non-oil sectors."

- There has been little progress since 2002 in resolving the key financial sector issues of vulnerability and ownership concentration identified in the CAS and the FSAP. Banking remains highly concentrated, with one state-owned bank, IBA, controlling half of system assets, and retaining major advantages over competitors from low-interest public sector deposits and *de facto* deposit insurance. By end-2005, some 60% of system assets were in banks (including IBA) with prudential ratios below National Bank standards, and the recent credit expansion may partially mask this vulnerability. As the CASCR notes, the financial system remains small despite recent rapid growth, with indicators of financial depth and use of the banking system by firms to finance investment well below comparator averages. EBRD financial sector transition indicators (Annex 9) show no improvement from the low levels of 2002. Consistent efforts by the Bank, IFC, EBRD and IMF to reduce IBA's dominance have met strong political opposition, limiting progress in making the sector more competitive.
- Progress in private sector/SME development has also been limited. Since 2002, EBRD's transition indicators (Annex 9) show no improvement for large scale privatization, no increase in the 60% of GDP estimated from the private sector, and only modest improvement in enterprise governance. While WBI governance indicators show some gains in two areas, the joint EBRD/WB 2005 Business Environment and Enterprise Performance Survey (BEEPS) is more worrying: it shows deterioration in 14 of the 21 problem areas surveyed, with Azerbaijan losing ground against comparators (Annex 10). This reverses an improving trend up to 2002. ECA's recent *Anti-Corruption in Transition – 3* Report also suggests that Azerbaijan may be losing ground relative to other ECA countries. Another indicator of these problems is that during the CAS period, IFC was unable to make direct investments in domestic companies due to the poor investment climate and opaque enterprise governance. These results are consistent with reports that the private sector continues to be dominated by a small number of influential business/family groups that can limit competition through informal barriers to entry and undermine effective implementation of reforms. While data limitations prevent direct assessment of outcomes for the SME sub-sector, it is likely that SMEs face constraints at least as serious as those facing the private sector at large.
- The agriculture sector, which provides about 40% of the country's jobs and 18% of its non-oil GDP, grew at a fairly robust 6% p.a. from 2002 to 2005. This reflects considerable success in supporting the radical post-independence transformation of the sector from some 2,000 large state and collective farms to nearly a million small family farms. The evaluation of a recently completed project documents the benefits to farmers from Bank support for farm advisory services, rural credit unions, and water users associations as well as improved mechanisms for land titling and recording of transactions. Recent poverty analysis finds that farming has become a significantly more important source of income for the poorest 20% of households, suggesting that progress in agriculture is particularly important for the poor. The stagnation of agriculture in 2006, however, is a concern.
- Environmental issues were integrated into the PRSP dialogue and reviewed in the context of the SPPRED. IFC helped ensure the new pipeline (see Objective 4) was built to appropriate environmental and earthquake-safety standards. Approval of a Hazardous Waste Management Strategy was a prior action of the PRSC. A Bank-financed operation approved in FY98 contributed to rebuilding depleted fish populations, but fell short in industrial clean-up activities and was rated moderately unsatisfactory. A rural environment project focused on protection of mountainous forests and national parkland was approved in late FY05, but is not yet effective.

- **Objective 3: *Improve social services and infrastructure – moderately satisfactory results***

Bank support for this objective led to generally positive results in *social services*, but uneven progress in *energy, utilities, and infrastructure*.

The main results are:

- In education, curriculum reform is underway in general education; free textbooks reach some 95% of students; and systems for measuring learning outcomes and managing schools better are being put in place. Enrollment rates have gradually risen in general education (Annex 7), but there is still scope for improvement, especially for girls from low-income families and at the upper secondary level, where a sharp decline appears in 2004.
- In health, the CAS anticipated little progress, since Health Ministry leadership had not been open to needed reforms. In part this reflected Ministry reliance on flawed official data that significantly understated mortality rates. As the CASCR points out (in its Annex Table 4), the MDGs for child and maternal mortality are unlikely to be achieved, despite some improvements in pilot areas covered by an ongoing Health LIL. However, with a change in leadership in 2005, the dialogue improved dramatically and the Bank responded effectively: the reform agenda developed in the FY05 Health Sector report was adopted, and a lending operation designed to implement the reforms was approved (in FY06).
- In social protection, a project to improve administration of *pensions and social assistance* is underway; a new targeted social assistance program began operations in July, 2006; and a new pension reform concept is being

prepared for implementation. Benefits rose substantially between 2002 and 2004, and, with increases greatest for the poorest 20%, this caused about one-third of the reduction in poverty up to 2004. With benefits increased again in 2005 and 2006, their sustainability beyond the oil boom needs careful analysis. Programs for *internally displaced persons* appear to have made reasonable progress: surveys indicate that refugee living standards are equal to or above those of the general population. In the area of *labor*, data and analysis remain limited.

- Utility and energy sector reforms have brought greater use of private sector management contracts, particularly for electricity distribution, but little progress in implementing improved regulatory frameworks or more commercialized structures and operations. Tariff-setting institutions have been strengthened, and there have been large increases in *gas* and *water* tariffs, reducing subsidies for these utilities. But there has been no increase in *electricity* tariffs and the gas and water tariff increases have been partly offset by lower collection rates, leaving the utilities with weak financial positions and inadequate O&M throughout the CAS period. There are reports of very recent improvements in collections, but it is too early to assess their sustainability. *Financial subsidies* in energy (the losses of energy utilities) have declined since their 2003 peak, but in 2005 were still above the levels achieved in 2001. Moreover, rapidly rising world energy prices have increased the *economic subsidy* (the gap between domestic prices of energy products, including gas, and their opportunity costs) by over 90%. The coverage and reliability of utilities continues to be uneven, especially outside of Baku. EBRD transition indicators show no improvement for power and water (Annex 9).
- In transport, improvements include restructuring of road administration, systems to prioritize road projects, increased budget allocations, and a rising share of budget tendered through competitive bidding. Traffic volumes on the Europe-Caucasus-Asia corridor have risen, while transport costs and times have fallen. A reasonable 5-year investment plan has been developed, but concerns remain that costly, high-profile expansions of the trunk roads could displace road maintenance and rural road improvements that offer higher returns. There has been little progress in introducing road user charges, privatization of state owned transport enterprises, or mobilizing private sector engagement. EBRD transition indicators for roads and railroads in 2005 show no improvement from the low levels of 2002 (Annex 9).

- **Objective 4: *Realize the oil and gas potential – moderately satisfactory***

The Bank Group's support for this objective focused on (i) ensuring *timely implementation of investments* in pipelines and O&G fields so that the projected oil revenues would materialize, and (ii) *restructuring the state owned oil company (SOCAR)* to improve its efficiency and transparency. The results have been mixed:

- The large, complex oil and gas investments, supported by IFC lending (Annex Table 1A), are coming on line broadly on schedule, with revenue well above amounts anticipated in the 2003 PER. IFC involvement helped to develop local suppliers for the O&G industry and to ensure higher environmental standards for the pipeline.
- The CAS saw restructuring of SOCAR, by far the largest and most influential enterprise in Azerbaijan, as an important objective. It also recognized the difficulty of this reform by designating it as a high case trigger. A Presidential Decree in 2003 announced its restructuring, and a management consulting firm was hired under the PRSC to advise SOCAR on implementing an agreed action plan. However, despite efforts by the Bank, there has been little substantial progress and SOCAR still lacks financial transparency. As the CPS notes, SOCAR has no firm timetable to be audited, and still combines regulatory and commercial functions. It also maintains many non-core business activities. Its size, and its lack of financial transparency, have complicated macroeconomic management in the past, leading to overheating of the economy. With no further policy-based lending anticipated, it will be important to identify other instruments for continued dialogue on SOCAR restructuring.

Achievement of CAS Objectives

Objectives	CASCR Rating	IEG Rating	Explanation / Comments
Objective 1: *Manage the oil boom*	S	S	- Growth and poverty reduction exceeded CAS goals by a wide margin and macro-stability was broadly maintained during the CAS period; - The main macroeconomic challenges are only now emerging, and the large increase in the 2006 Budget suggests that the institutional improvements underway are not yet fully effective; hence, the positive outcomes to date face major risks. - Data limitations still hinder program monitoring.

Objective 2: ***Generate jobs and non-oil growth***	MS	MU	- Non-oil growth exceeded CAS goals, but job growth was minimal; - Much of the non-oil growth was concentrated in non-tradable sectors, suggesting risks to sustained growth after the oil boom; - Little progress in resolving main financial sector issues; and no improvement in low EBRD financial sector transition indicators; large expansion in credit brings risks as well as benefits; - Little or no improvement in environment for private sector development; ground lost with comparators; - Progress in agriculture was satisfactory; - Progress on the environment was limited.
Objective 3: ***Improve social services and infrastructure***	S	MS	- Satisfactory overall performance in the social sectors, with particularly good progress in revitalizing the dialogue in health; - Limited progress in energy sector reforms and in utilities; - Some progress on road transport outcomes, but no improvement in transition indicators for roads and railways.
Objective 4: ***Realize the oil & gas potential.***	S	MS	- Satisfactory progress in financing and implementing key O&G investments and in realizing the oil revenue inflow; - Minimal progress in restructuring SOCAR.

Comments on Bank Performance:

- The Bank's strategy and interventions were highly relevant and centered on a coherent, ambitious reform agenda aimed at sustaining poverty reduction beyond the oil boom. Virtually all operations and AAA focused on aspects of this agenda, and messages were consistent, with sector reports reinforcing critical macro messages, and broader macro work reinforcing focus on critical sector issues. The Bank's strategy kept Azerbaijan engaged in dialogue on reforms at a time when its need for Bank Group finance was declining as oil earnings grew, and when other lenders with lower costs and less conditionality might have appeared more attractive.
- AAA was generally adequate and consistent with lending. The Health Sector Report, added to the AAA program even though the prospects for effective dialogue were initially dim, was particularly effective as it led to consensus behind a much-needed reform agenda (and to an operation to support that reform). The work on Poverty Assessments has helped build capacity to conduct and analyze household surveys and draw conclusions for resource allocation and program design. The importance of the PER work currently underway is clear from the large increase in 2006 budgeted spending and the need for Azerbaijan to implement an efficient, high-quality, prioritized public expenditure program. However, if the CEM had been prepared on its original schedule in FY05 rather than postponed to FY08, and focused on identifying sources of and constraints on non-oil growth and trends in competitiveness, it could have been useful for the policy dialogue and for identifying investment priorities to support the non-oil economy.
- While the programmatic approach for key AAA tasks can have advantages, it may prove difficult to consolidate over time and to integrate across sectors and with the broader policy agenda. It is not yet clear that the approach leads to broader participation or dissemination to a wider group of stakeholders or Civil Society, or to higher-quality, more timely results. The programmatic work has not yet been subject to a QAG review, and its outputs are still in draft form.
- Portfolio performance indicators suggest reasonably effective management of the active portfolio.
- The Bank made effective use of the PRSP process. In addition to enabling the government to design a more coherent program and achieve greater coordination across agencies and ministries, it also served as a focus for the Bank's own program, and for better donor coordination. The CASCR notes numerous examples of donor partnerships.
- The CASCR notes both the substantial attention given to safeguard and fiduciary issues, and the serious problems remaining. Financial management reforms incorporated in SAC2 and the PRSC are being gradually implemented, but are taking more time to have an impact than anticipated. PIUs are used in virtually all operations to ensure adequate fiduciary safeguards.

4. Overall IEG Assessment	
Outcome:	*Moderately Satisfactory*
Bank Performance:	*Satisfactory*

- The overall outcome assessment weights the four main CAS objectives equally. The growth and poverty reduction outcomes, well above CAS goals, the maintenance of reasonable macroeconomic management, the realization of the oil revenue potential, and good progress in agriculture and the social services were the main positive considerations driving the moderately satisfactory overall rating. These outcomes, however, are tempered by the shortcomings noted in the financial sector, the environment for private sector development, several aspects of infrastructure, and SOCAR reforms – key areas for the development of a dynamic, competitive non-oil economy, which is essential to sustain the results achieved so far. IEG-IFC concurs with the assessment of IFC's activities and achievements.
- Bank Group performance is rated as satisfactory, based largely on the consistent pursuit of a relevant strategy and reform agenda. Attribution is difficult, with high oil prices making a major contribution to outcomes. But Bank Group lending assistance and policy advice, in concert with the IMF and other donors, helped the Government avoid the most critical risks it faced during the CAS period and to make progress in the areas indicated above. While adhering to the CAS, the Bank also demonstrated an ability to take additional initiatives, such as launching the health sector report to revitalize an initially unpromising dialogue.
- The Government's ability to make more rapid progress on reforms during FY03-05 was limited by several factors. First, the change in national leadership following the death of Azerbaijan's long-time President and the election of his son in 2003 probably slowed progress on reforms as attention focused on establishing new political relationships. The run-up to the 2005 elections, and the numerous associated cabinet changes had a similar impact. Second, it is likely that the higher than expected oil prices and revenues obscured policy-makers' perceptions of the urgent need for fiscal discipline and structural reform, and reduced leverage by the Bank Group and other IFIs. Third, the unsettled political environment may have given vested interests more scope to slow reform, particularly in areas that would increase competition and transparency. Finally, there is a normal lag between formal changes in regulations and institutions and their effective implementation and impact on outcomes. Reflecting slower progress, Azerbaijan's CPIA rating (which had risen substantially during the previous CAS) has improved little since 2003, and its percentile ranking has declined.

5. Assessment of CAS Completion Report

- The CASCR is clearly written and covers CAS objectives and program implementation systematically, including a discussion of IFC activities in the relevant sections. Its assessments are more positive than those of this review, particularly for Objectives 2 and 4. The CASCR could have focused more on: the risks to macroeconomic management going forward (particularly given the 2006 budget); the slow progress in the financial sector, the private sector, infrastructure and SOCAR; the disappointing employment growth; and the doubtful prospects for reaching the MDGs in child and maternal mortality.
- While the CASCR notes these areas of weakness, it could have been more candid in analyzing critically the areas where results did not match expectations. This would have been useful for identifying the obstacles to reform as well as strategies to overcome them during the next CAS.
- In assessing outcomes and using performance indicators, the CASCR makes a useful attempt to compensate for the limitations in the original design of the CAS results matrix by recasting the matrix and using a number of supplementary ex-post indicators. This improves the results matrix, though it still suffers from limitations both in data (especially the flawed health data) and in the original matrix design.
- The discussion of outcome ratings for projects that closed during the CAS period would have been more straightforward if the CASCR had used only IEG ratings, without reference to the un-validated self ratings from the region's ICRs.

6. Findings and Lessons

- IEG concurs with most of the lessons drawn in the CASCR, particularly those highlighting the importance of: consistent engagement with counterparts over time on a coherent reform agenda; basing that engagement on high quality analytic work; and integrating policy dialogue and investment operations across sectors and across the country team. IEG also concurs that a major strategic challenge going forward is determining how, in the absence of policy-based lending, this engagement can continue and become more effective, given the large unfinished reform agenda and substantial risks facing the country.
- The CASCR's highly positive assessment of "programmatic" AAA may be premature. It would be useful for a QAG AAA Assessment to evaluate the approach, and assess how to use it to maintain quality and integration. In line with CASCR lessons, AAA should be conducted through collaborative approaches that engage stakeholders both inside and outside the government to build ownership, and with more systematic dissemination to achieve greater impact with both target audiences and broader civil society. Consideration could also be given to building ownership with government through cost-sharing for an expanded AAA (and project preparation) program, on the lines of the Joint Economic Research Program in Kazakhstan.
- IEG agrees with the CASCR's emphasis on the need for better analysis and data systems to establish meaningful objectives and to monitor progress. The lack of easily monitorable indicators and data prevents a well-informed assessment of outcomes. In particular, it is important that CAS results matrices be prepared in a more rigorous, transparent and quantifiable way so that CAS expectations are clear, results can be assessed, progress monitored and the strategy kept on track.
- During the next CAS period it would be useful for the Region to analyze the political economy barriers to reform and to identify ways to overcome them, including through the dissemination of AAA and the selection and design of lending operations.
- IEG agrees with the CASCR that weak financial management is one of the primary risks for Azerbaijan's development outcomes. Given the importance of reforms in procurement, accounting and auditing, and the time it is taking for them to have an impact, the Bank should establish an implementation timetable for these reforms, with clear, specific benchmarks, and use it in the dialogue to monitor and guide timely implementation.

Annex Table 1: Actual vs. Planned Lending

Annex Table 1A: IFC Operations

Annex Table 2: Analytical and Advisory Work: actual vs. planned

Annex Table 3: IEG Project Ratings

Annex Table 4: Portfolio Status Indicators by Year

Annex Table 5: IBRD / IDA Net Disbursements and Charges

Annex Table 6: Net Aid Flows

Annex Table 7: Economic and Social Indicators

Annex Table 8: Millennium Development Goals

Annex Table 9: EBRD Transition Indicators

Annex Table 10: Business Environment Indicators

Annex Table 1. Planned and Actual Lending 2003-2005
Base Case Scenario

	Proposed FY	Approved FY	Proposed Amount	Approved Amount
Programmed Projects				
Baku Water Supply	2003	2003	12.9	12.9
Education APL	2003	2003	18.0	18.0
Irrigation 2	2003	2003	30.0	35.0
PSD (Financial Services Development)	2004	2005	10.0	12.3
Social Protection/Pensions	2004	2004	10.0	10.0
Energy Sector[1]	2004	2005	40.0	48.0
Rural Investment (Community Infrastructure)	2005	2004	15.0	15.0
Rural Environment	2005	2005	8.0	8.0
Poverty Reduction Support Credit - 1 and Institution Building Technical Assistance - 3[2]	2005	2005	20.0	20.0
Total			**163.9**	**179.2**
Non-Programmed Projects				
Internally Displaced Persons Economic Development Support		2005		11.5
Total			**163.9**	**190.7**

1/ IBRD Lending

2/ IBTA - 3 was not processed as IBTA - 2 was still active

Source: Azerbaijan CAS 2003 and WB Business Warehouse as of December 16, 2005.

Annex Table 1A: Statement of IFC's Held and Disbursed Portfolio (as of 06/30/2005)

(In US Dollars Millions)

		Held			Disbursed		
FY Approval	Company	Loan	Equity	Participation[2/]	Loan	Equity	Participation[2/]
2004	Amerada Hess	1.68	0.00	1.68	1.68	0.00	1.68
1998/2004	Azerb. JV Bank	0.00	1.40	0.00	0.00	1.40	0.00
1998/2003	Azerigazbank	1.10	0.00	0.00	1.10	0.00	0.00
2004	BP Corp NA	10.00	0.00	10.00	10.00	0.00	10.00
1999	Baku Hotel	2.90	0.00	0.00	2.90	0.00	0.00
2002	MFB Azerbaijan [1/]	0.00	1.60	0.00	0.00	1.60	0.00
1998/2003	Rabitabank	1.10	0.00	0.00	1.10	0.00	0.00
2004	Statoil	8.75	0.00	8.75	2.50	0.00	2.50
2004	Unocal – Unio	10.00	0.00	10.00	10.00	0.00	10.00
2004	BTC Pipeline[3/]	31.00	0.00	31.00	31.00	0.00	31.00
Total Portfolio:		**66.53**	**3.00**	**61.43**	**60.28**	**3.00**	**55.18**
MEMO ITEMS:							
FY03-05 Approvals		**63.63**	**3.00**	**61.43**			
[of which Oil & Gas (%)]		**96.5%**	**0.0**	**100.0%**			

1/ In FY06, IFC loaned MFB an additional $3.0 million
2/ Participation of other investors
3/ Baku-Tiblisi-Ceyhan Pipeline

Annex Table 2: Azerbaijan: Planned Non-lending Services and Actual Deliveries

Proposed FY	Products envisaged in 2003 CAS	Status of delivery (as of Jan. 10, 2006)
FY2003		
	Country Financial Accountability Assessment	Delivered
	Trade Facilitation Strategy	Delivered
	Trade Diagnostic Study	Delivered
	Public Expenditure Review	Delivered
	Poverty Assessment	Delivered
	Electricity & Natural Gas, Oil & Advisory TA	Delivered
	Municipal Infrastructure Survey	Delivered FY04
	Added Education Sector Note	Delivered
FY2004		
	Marketing and Agro-Processing Issues Study	Delivered FY05
	Energy Sector Study	Delivered FY05
	Rural Impact of Utility Price Changes	Delivered
	Financial Sector Assessment (FSAP)	Delivered
	Business Environment Study	Delivered FY05 [1/]
	Health Sector Capacity Building TA	Delivered
	S. Caucasus Telecoms/PPIAF TA	Delivered FY06
	S. Caucasus Trade Facilitation TA/policy notes	Delivered
FY2005		
	Country Economic Memorandum Update	Postponed to FY08
	Transcaucasus Tourism TA (IDF)	Delivered
	Public Expenditure Review Update [2/]	Ongoing, completion forecast FY07
	Higher Education Note	Dropped
	Added Health Sector Review	Delivered
	Added PSIA Labor Market Study	Delivered
	Added Programmatic Poverty Assessment	Ongoing

1/ Changed to Annual Benchmark Survey

2/ Changed to programmatic PER

Source: Azerbaijan CAS FY03, Azerbaijan CASCR FY06, WB Business Warehouse, and WB Common Data Stores as of January 12, 2006.

Annex Table 3: IEG Project Ratings for Azerbaijan, FY03-05 [1/]

Project ID	Approval FY	Exit FY	IEG Outcome	IEG Sustainability	IEG ID Impact
Institution Building TA	1996	2003	MODERATELY SATISFACTORY	HIGHLY LIKELY	SUBSTANTIAL
Gas Rehab.[2/]	1997	2003	MODERATELY UNSATISFACTORY	LIKELY	MODEST
SAC 2	2002	2003	SATISFACTORY	LIKELY	SUBSTANTIAL
Farm Privatization	1997	2004	HIGHLY SATISFACTORY	HIGHLY LIKELY	SUBSTANTIAL
Education Reform LIL	1999	2004	MODERATELY UNSATISFACTORY	LIKELY	MODEST
Urgent Environ. Invst.	1998	2005	MODERATELY UNSATISFACTORY	NON-EVALUABLE	MODEST

Region	Total Evaluated ($M)	Total Evaluated (No)	Outcome % Sat ($)	Outcome % Sat (No)	Sustainability % Likely ($)	Sustainability % Likely (No)	Inst Dev Impact % Subst ($)	Inst Dev Impact % Subst (No)
Azerbaijan	132.7	6.0	70.0	50.0	100.0	100.0	70.0	50.0
ECA	8,363.4	190.0	86.7	83.2	91.1	88.8	68.9	61.6
Bankwide avg.	**58,343.8**	**878.0**	**81.1**	**77.9**	**82.4**	**78.5**	**59.1**	**54.7**

1/ Includes all operations closed during the CAS period. Based on IEG ICR reviews, except where noted.

2/ A PPAR dated 26 January 2006 confirmed these ratings.

Source: WB Business Warehouse Tables 4a.5 and 4a.6 as of November 6, 2006.

Annex Table 4: Portfolio Status Indicators by FY, 2001 - 2005

	Fiscal Year				
Country	**2001**	**2002**	**2003**	**2004**	**2005**
Azerbaijan					
# Proj	13	15	14	14	18
# Proj At Risk	1	7	0	2	1
% At Risk	7.7	46.7	0.0	14.3	5.6
Net Comm Amt ($ million)	288.3	367.8	336.0	341.3	421.0
Comm At Risk ($ million)	5.0	186.3	0.0	103.9	15.0
% Commit at Risk	1.7	50.7	0.0	30.5	3.6
Armenia					
# Proj	13	17	14	18	16
# Proj At Risk	1	1	0	2	0
% At Risk	7.7	5.9	0.0	11.1	0.0
Net Comm Amt ($ million)	268.3	307.5	260.7	295.5	251.3
Comm At Risk ($ million)	30.0	21.0	0.0	16.4	0.0
% Commit at Risk	11.2	6.8	0.0	5.5	0.0
Georgia					
# Proj	18	17	17	18	17
# Proj At Risk	0	4	1	4	0
% At Risk	0.0	23.5	5.9	22.2	0.0
Net Comm Amt ($ million)	348.5	326.2	301.7	344.8	328.8
Comm At Risk ($ million)	0.0	106.8	15.0	82.1	0.0
% Commit at Risk	0.0	32.7	5.0	23.8	0.0
Moldova					
# Proj	9	8	11	12	10
# Proj At Risk	2	2	1	1	1
% At Risk	22.2	25.0	9.1	8.3	10.0
Net Comm Amt ($ million)	132.8	117.8	142.5	160.5	143.8
Comm At Risk ($ million)	25.9	24.9	30.0	11.1	35.0
% Commit at Risk	19.5	21.1	21.1	6.9	24.3
Eastern and Central Europe					
# Proj	291	286	288	285	276
# Proj At Risk	36	56	22	50	24
% At Risk	12.4	19.6	7.6	17.5	8.7
Net Comm Amt ($ million)	15,869.1	15,719.9	14,800.4	14,383.0	15,675.5
Comm At Risk ($ million)	2,491.3	3,332.7	1,246.7	2,507.9	1,413.0
% Commit at Risk	15.7	21.2	8.4	17.4	9.0
Bankwide average					
# Proj	1,457	1,428	1,395	1,346	1,332
# Proj At Risk	184	272	218	228	224
% At Risk	12.6	19.0	15.6	16.9	16.8
Net Comm Amt ($ million)	106,640.7	102,601.3	94,772.5	92,554.3	93,211.7
Comm At Risk ($ million)	12,539.2	17,385.4	14,141.5	14,742.1	12,552.7
% Commit at Risk	11.8	16.9	14.9	15.9	13.5

Source: WB Business Warehouse Table 3a.4 as of November 06, 2006.

Annex table 5: IBRD/IDA Net Disbursements and Charges Summary Report for Azerbaijan

(US$ million)

Fiscal Year	Disb. Amt.	Repay Amt.	Net Amt.	Charges	Fees	Net Transfer
2001	27.5	0.0	27.5	1.6	0.0	26.0
2002	55.3	0.0	55.3	1.7	0.0	53.5
2003	69.0	0.0	69.0	2.2	0.0	66.8
2004	42.3	0.0	42.3	2.8	0.4	39.1
2005	54.5	0.1	54.3	3.6	0.9	49.9
Total (2001-05)	248.5	0.1	248.4	11.9	1.2	235.3

Source: WB Loan Kiosk, Net Disbursements and Charges Report as of November 06, 2006.

Annex Table 6: Total Net Disbursements of Official Development Assistance and Official Aid CY 2000-2004 (US$ million)

	Calendar Years				
Donors	**2000**	**2001**	**2002**	**2003**	**2004**
Austria	0.15	0.2	0.32	0.34	0.74
Canada	0.32	0.32	0.76	1.05	0.87
Czech Republic	-	0.05	0.08	0.02	0.03
Finland	0.28	0.12	0.08	0.07	0.08
France	0.79	1.46	2.91	1.29	2.44
Germany	9.17	6.81	9.83	13.58	16.96
Greece	0.12	0.09	0.08	0.25	0.31
Ireland	-	-	-	0.05	0.23
Italy	0.01	0.03	0.72	0.21	0.11
Japan	36.39	100.97	141.84	79.82	9.64
Korea	0.06	0.02	0.08	0.03	0.07
Latvia	-	-	0	-	-
Lithuania	-	-	0	0.01	0.04
Luxembourg	-	-	-	0.14	-
Netherlands	0.8	2.59	4.06	3.86	3.5
Norway	2.23	2.71	3.52	5.4	5.66
Poland	0.01	0.02	0	0.02	0.02
Slovak Republic	-	-	-	0.01	-
Spain	-	-	0.02	0.05	0.07
Sweden	0.13	0.07	0.36	0.31	0.47
Switzerland	0.63	0.99	5.65	2.53	3.05
Turkey	3.72	3.33	4.14	3.65	22.9
United Kingdom	0.75	1.15	0.47	0.29	0.16
United States	18.89	30.91	61.53	49.27	47.58
EBRD	0.08	1.08	2.08	2.3	3.05
EC	20.12	12.78	22.37	24.56	10.61
GEF	-	-	-	0.07	0.18
IDA	**27.2**	**27.56**	**56.92**	**74.74**	**49.17**
IFAD	2.19	1.95	1.66	1.79	1.91
SAF+ESAF+PRGF(IMF)	-	13.05	7.77	20.48	-21.67
UNDP	2.07	2.21	2.17	2.45	2.43
UNTA	0.37	0.39	0.42	0.54	0.66
UNICEF	1.02	0.82	0.93	0.89	1.07
UNHCR	4.11	3.5	3.18	2.38	1.76
WFP	2.41	3.11	3.26	1.93	1.35
Other UN	0.29	0.17	0.05	0.03	-
UNFPA	0.62	0.78	0.75	0.57	0.57
Arab Agencies	-	5.8	3.38	-1	6.4
Arab Countries	0.1	4.64	5.26	3.89	1.35
Other Bilateral Donors	4.38	2.45	2.71	2.73	1.78
DAC Countries	70.66	148.42	232.15	158.51	91.87
Multilateral	60.48	73.2	104.94	131.73	57.49
G7	66.32	141.65	218.06	145.51	77.76
EU Members	12.2	12.52	18.85	20.44	25.07
Non-DAC Bilateral Donors	8.27	10.51	12.27	10.36	26.19
ALL Donors	**139.41**	**232.13**	**349.36**	**300.6**	**175.55**

Source: OECD DAC Online database, table 2a. Destination of Official Development Assistance and Official Aid - Disbursements, as of November 06, 2006

Annex Table 7: Economic and Social Indicators, 2000 - 2005

	Azerbaijan						Azer-baijan	Georgia	Armenia	Moldova	ECA	Low income
Series Name	**2000**	**2001**	**2002**	**2003**	**2004**	**2005p**	**Average**					
Growth and Inflation												
GDP growth (annual %) [3/]	6.2	6.5	8.1	10.4	10.2	24.3	11.0	6.2	11.1	6.2	..	..
GDP growth (annual %)	11.1	9.9	10.6	11.2	10.2	26.2	13.2	6.4	11.2	6.2	5.4	5.7
GNI per capita, Atlas method (current US$) [1/]	610	660	720	820	950	1,240	833	895	960	575	2421	424
GNI per capita, PPP (current international $)	2,430	2,710	3,030	3,400	3,810	4,890	3,378	2,527	3,617	1,720	7,524	2,092
GDP per capita growth (annual %)	10.2	9.1	9.8	10.4	9.2	25	12.3	7.6	11.7	6.5	5.4	3.7
Inflation, consumer prices (annual %) [3/]	1.8	1.5	2.8	2.2	6.7	9.7	4.1	3.0	4.9	1.7	13.4	..
Composition of GDP (%) [1/]												
Agriculture, value added	17.1	16.1	15.2	13.5	12.1	10.0	14.0	20.0	24.8	23.2	..	..
Industry, value added	45.3	47.2	50.2	52.6	54.3	62.3	52.0	24.7	37.4	23.7	..	..
Services, etc., value added	37.5	36.7	34.6	34.0	33.6	27.7	34.0	55.3	37.8	53.2	..	..
External Accounts												
Exports of goods and services (% of GDP) [1/]	39.0	40.9	42.8	42.1	48.8	57.4	45.2	31.6	27.5	51.6	..	..
Imports of goods and services (% of GDP) [1/]	38.4	37.3	50.0	65.6	72.7	53.8	53.0	45.0	45.9	81.2	..	..
Current account balance (% of GDP) [1/ 2/]	-3.6	-0.9	-12.3	-27.8	-30.0	-5.2	-13.3	-7.1	-7.8	-6.1	..	..
Total debt service (% of GNI)	2.6	2.5	2.9	3.2	3.0	..	2.8	3.7	2.9	10.4	8.8	3.0
External debt (% of GNI)	27.2	24.2	25.6	25.5	25.4	..	25.6	49.1	42.2	96.9	50.8	40.6
Total reserves in months of imports	3.4	3.4	2.4	1.8	1.8	1.6	2.4	1.4	4.1	2.4	5.6	7.7
Fiscal Accounts												
Current revenue, incl. current grants (% of GDP) [1/ 2/]	21.2	18.7	27.3	26.6	26.8	26.8	24.6	15.6	16.5	33.5	..	..
Non-oil revenue (% of GDP) [2/]		15.2	15.5	15.0	16.4	16.8	15.8					
Non-oil revenue (% of non-oil GDP) [2/]		22.4	22.5	21.4	23.8	28.7	23.8					
Total Expenditure (% of GDP) [2/]		18.7	27.7	28.5	25.9	24.3	25.0					
Fiscal Balance (% of GDP) [2/]		-0.4	-0.5	-0.8	1.0	2.7	0.4					
Non-oil primary balance (% of non-oil GDP) [2/]		-5.1	-17.1	-17.5	-13.4	-12.1	-13.0					
Overall budget balance, including grants (% of GDP) [1/]	-0.6	-1.7	-0.4	-1.3	1.0	2.7	-0.1	-2.6	-2.8	0.1	..	..
Gross domestic savings (% of GDP)	21.3	24.3	27.3	29.7	29.6	..	26.4	10.8	4.8	-6.2	23.0	21.6
Gross fixed capital formation (% of GDP)	23.1	22.9	34.1	52.9	53.2	..	37.2	23.3	22.2	16.6	20.1	22.6
Social Indicators												
Health												
Life expectancy at birth, total (years)	71.8	71.8	72.1	72.2	72.3	..	72.0	70.4	71.2	68.0	68.5	58.5
Immunization, DPT (% of children ages 12-23 months)	99.0	98.0	97.0	97.0	96.0	..	97.4	81.0	93.2	94.8	92.4	63.3
Improved sanitation facilities (% of pop. with access)	..	..	55.0	..	..	..	55.0	83.0	84.0	68.0	81.9	35.6
Improved water source (% of pop. with access)	..	..	77.0	..	..	..	77.0	76.0	92.0	92.0	91.3	75.1
Mortality rate, infant (per 1,000 live births)	77.0	..	..	..	74.6	..	75.8	41.0	31.0	26.2	30.6	81.6
Education												
School enrollment, preprimary (% gross)	22.7	23.7	25.1	26.7	28.2	..	25.3	44.0	27.5	41.7	43.1	24.3
School enrollment, primary (% gross)	94.3	95.7	95.8	95.6	96.8	..	95.6	95.9	91.6	85.0	102.2	94.5
School enrollment, secondary (% gross)	75.4	79.6	80.0	83.7	83.1	..	80.4	81.2	86.0	72.5	91.5	43.1
Population												
Population, total (million)	8.0	8.1	8.2	8.2	8.3	..	8.2	4.6	3.1	4.2	472.0	2,258.9
Population growth (annual %)	0.8	0.8	0.7	0.8	0.9	..	0.8	-1.1	-0.5	-0.3	0.0	1.9
Urban population (% of total)	50.5	50.4	50.3	50.1	50.0	..	50.3	52.2	64.7	46.0	63.5	29.9

1/ WB ECA Regional database, Sept 2006
2/ IMF Azerbaijan Statistical Appendix, March 2006
3/ IMF World Economic Outlook, Sept 2006
Source: WB World Development Indicators (Sept 2006 update), except as noted.

Annex Table 8: Azerbaijan - Millennium Development Goals

	1990	1995	1998	2001	2002	2003	2004
Goal 1: Eradicate extreme poverty and hunger							
Income share held by lowest 20%	..	..	..	12	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*10*	..	7	..	..	..
Poverty gap at $1 a day (PPP) (%)	..	3	..	1	..	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	11	..	4	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	45	40	28
Prevalence of undernourishment (% of population)	..	34	..	..	..	..	*10*
Goal 2: Achieve universal primary education							
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	..	100
Persistence to grade 5, total (% of cohort)	..	..	..	..	..	..	..
Primary completion rate, total (% of relevant age group)	..	*81.3*	*88.7*	93.2	..	..	96.1
School enrollment, primary (% net)	*89*	..	*85*	83	..	..	84
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliament (%)	..	..	12	*11*	..	..	11
Ratio of girls to boys in primary and secondary education (%)	*100.3*	..	99.8	97.5	..	..	97.3
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	..	100
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	34	39	43	45	..	..	*49*
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	..	97	98	99	..	..	98
Mortality rate, infant (per 1,000 live births)	84	80	..	*77*	..	..	75
Mortality rate, under-5 (per 1,000)	105	98	..	*93*	..	..	90
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	..	..	99.8	*84.1*	..	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*94*	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children orphaned by HIV/AIDS	..	..	..	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	55	..	..	..
Incidence of tuberculosis (per 100,000 people)	34.9	..	..	..	..	..	75.3
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	..	*0*
Tuberculosis cases detected under DOTS (%)	..	5.2	6.7	0.2	..	..	47.1
Goal 7: Ensure environmental sustainability							
CO2 emissions (metric tons per capita)	7.5	4.2	3.8	3.4	..	..	..
Forest area (% of land area)	..	..	..	*11*	..	..	*11*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	1	1	2	..	..	2
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	54
Improved water source (% of population with access)	68	..	..	..	..	..	77
Nationally protected areas (% of total land area)	..	..	..	..	..	..	6.4
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	*0*	15.5	15.2	28.6	..	..	21.1
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	..	1	2	5	..	..	3
Fixed line and mobile phone subscribers (per 1,000 people)	86.6	84	94.2	196.6	..	..	333.1
Internet users (per 1,000 people)	0	0	0.4	3.1	..	..	49.1
Personal computers (per 1,000 people)	..	..	..	..	..	..	17.9
Total debt service (% of exports of goods, services and income)	..	1	2	5	..	..	5
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..	..
Other							
Fertility rate, total (births per woman)	2.7	2.3	2	*2.1*	..	..	2
GNI per capita, Atlas method (current US$)	..	400	510	660	..	..	930
GNI, Atlas method (current US$) (billions)	..	3	4	5.3	..	..	7.7
Gross capital formation (% of GDP)	26.5	23.8	33.4	20.7	..	..	53.5
Life expectancy at birth, total (years)	70.8	69	71.4	71.8	..	..	72.3
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	..	98.8
Population, total (millions)	7.2	7.7	7.9	8.1	..	..	8.3
Trade (% of GDP)	83.1	87.7	77.2	78.2	..	..	121.5

Note: Figures in italics refer to periods other than those specified.
Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
Goal 2 targets: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
Goal 3 targets: Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015.
Goal 4 targets: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
Goal 5 targets: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
Goal 6 targets: Have halted by 2015 and begun to reverse the spread of HIV/AIDS. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.
Goal 7 targets: Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers.
Goal 8 targets: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least developed countries. Address the special needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.
Source: World Development Indicators database, September 2006 except for "poverty headcount at national poverty line", which is from Azerbaijan Household Budget Survey and Regional staff estimates.

Annex Table 9: EBRD Transition Indicators

	Azerbaijan Transition Scores			Average Scores - 26 Transition Countries			Ratio: AZ to Average		
	2002	2005	CHANGE	2002	2005	CHANGE	2002	2005	CHANGE
Private sector share of GDP	60%	60%	0	62.50%	64.42%	+	0.960	0.931	-
Enterprises									
Small-scale privatization	3.7	3.7	0	3.77	3.82	+	0.983	0.968	-
Large-scale privatization	2.0	2.0	0	3.03	3.18	+	0.660	0.628	-
Governance & enterprise restructuring	2.0	2.3 1/	+	2.32	2.46	+	0.864	0.934	+
Markets and Trade									
Price Liberalization	4.0	4.0	0	3.98	3.98	0	1.006	1.006	0
Trade & Foreign exchange system	3.7	4.0 2/	+	3.71	3.81	+	0.998	1.051	+
Competition policy	2.0	2.0	0	2.18	2.22	+	0.919	0.901	-
Financial institutions									
Banking reform & interest rate liberalization	2.3	2.3	0	2.67	2.94	+	0.863	0.783	-
Securities markets & non-bank financial institutions	1.7	1.7	0	2.26	2.37	+	0.752	0.719	-
Infrastructure									
Infrastructure reform	2.0	2.0	0	2.35	2.45	+	0.850	0.815	-
Electric Power	2.3	2.3	0	2.73	2.89	+	0.842	0.796	-
Railways	2.3	2.3	0	2.48	2.56	+	0.927	0.898	-
Roads	2.3	2.3	0	2.15	2.17	+	1.070	1.060	-
Telecommunications	1.0	1.7 3/	+	2.79	2.86	+	0.358	0.595	+
Water and Waste Water	2.0	2.0	0	2.32	2.35	+	0.864	0.850	-

1/ The indicator improved in 2003 because the government made many quasi-fiscal energy subsidies explicit and brought them on budget.
2/ The indicator improved in 2005 because of the acceptance of the IMF's article VIII, preventing restrictions on payments and transfers for international transactions; and progress with WTO accession.
3/ The indicator improved in 2004 because of the greater private sector participation in the mobile telephone market.
Note: The indicators range from 1 to 4.3, with 1 representing little or no change from a rigid centrally planned economy and 4.3 representing the standards of an industrialized economy.
The final column indicates that Azerbaijan made progress relative to the transition country average in only three areas, and lost ground in eleven areas.
Source: EBRD, Transition Reports 2002 and 2005.

Annex Table 10: Business Environment Indicators

Problem Area	Azerbaijan 2002	Azerbaijan 2005	ECA 2002	ECA 2005	CIS 2002	CIS 2005
	Percent of Firms Reporting a Problem					
Tax administration	41.3%	68.5%	53.9%	49.4%	60.3%	50.0%
Tax rates	44.4%	65.5%	62.4%	60.5%	59.3%	58.1%
Business licensing and permits	22.0%	37.6%	31.5%	30.6%	33.3%	32.9%
Customs and trade regulations	21.2%	35.9%	33.9%	27.8%	36.1%	28.9%
Anti-competitive practices of others	8.8%	23.2%	42.1%	43.0%	33.2%	35.8%
Corruption	37.6%	49.5%	41.3%	37.8%	40.4%	36.4%
Title or leasing of land	7.3%	18.8%	17.6%	21.8%	20.2%	26.1%
Organized crime/mafia	1.3%	9.9%	25.3%	19.3%	24.2%	18.0%
Cost of financing	40.6%	49.0%	52.9%	50.3%	51.8%	50.3%
Street crime, theft and disorder	3.9%	11.2%	28.5%	24.8%	26.6%	23.7%
Transportation	3.0%	5.5%	14.1%	14.1%	12.1%	11.7%
Labour regulations	8.4%	10.8%	21.3%	25.2%	12.4%	14.9%
Functioning of the judiciary	6.6%	8.4%	33.2%	33.4%	25.9%	26.5%
Access to land	10.9%	12.2%	17.4%	19.3%	18.9%	22.7%
Contract violations	14.6%	13.4%	39.3%	36.1%	34.0%	27.0%
Access to financing	39.1%	35.5%	45.4%	41.0%	46.4%	39.8%
Telecommunications	9.1%	5.0%	13.8%	11.4%	12.5%	8.1%
Macroeconomic instability	18.8%	13.4%	62.3%	50.9%	61.8%	48.8%
Electricity	31.0%	25.5%	18.3%	15.9%	18.0%	14.8%
Skills and education of workers	12.3%	5.2%	28.7%	29.8%	24.1%	28.1%
Uncertainty about regulatory policies	18.7%	8.9%	65.7%	53.3%	62.3%	49.2%

Source: Business Environment and Enterprise Performance Survey (BEEPS)