

Report No. 21459

Azerbaijan Country Assistance Evaluation

November 30, 2000

Operations Evaluation Department



Acronyms

CAS	Country Assistance Strategy
ESW	Economic and Sector Work
IFC	International Finance Corporation
MIGA	Multilateral Investment Guarantee Agency
OED	Operations Evaluation Department

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November 30, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Azerbaijan - Country Assistance Evaluation

Attached is a Country Assistance Evaluation on Azerbaijan prepared by the Operations Evaluation Department. A draft of this evaluation was distributed to CODE in June 1999. This report is now being re-issued for the purpose of public disclosure.

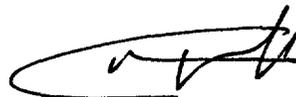
Comments from the Region are presented in Annex B, but OED has not shared this evaluation with the Azerbaijan authorities. Given the limited scope of this evaluation, OED is not seeking a management response, nor does it recommend that CODE meet to discuss the findings.

Azerbaijan has a population of about 7.6 million people and a 1997 per capita income of US\$510. From independence in 1991 until 1995, it experienced internal political conflict and a war that displaced almost 1 million people. GDP dropped 66 percent between 1988 and 1995, and unemployment reached 20 percent. The country had strong social indicators prior to independence, but they have deteriorated; 60 percent of the population is poor. Prospects are promising, however: parliamentary elections in 1995 restored political stability, and the country has substantial oil reserves, rich mineral deposits, a strong entrepreneurial tradition, an educated labor force, a diversified industrial base and fertile land.

In 1995, the government, with IDA and IMF support, started a comprehensive stabilization and structural adjustment program. The budget deficit declined substantially and inflation fell. Trade and prices were liberalized and privatization of farms and small-scale enterprises is virtually complete. Progress in privatizing larger enterprises and banks and in public sector reform has been slow, however. The economy began to recover in 1996 and growth has been strong since, but only in oil-related activities. Unemployment remains high and is likely to increase with public sector reform.

IDA's assistance strategy of 1996 focused on generating employment and alleviating poverty. Several projects were dropped or delayed, disbursements were slow, and three of the eight current projects are at risk. IFC's investments in the oil and financial sectors complement IDA's proposed emphasis on agriculture. The World Bank Group's support for Azerbaijan has not, however, contributed effectively to restoring broad-based growth, generating employment and alleviating poverty.

The draft IDA assistance strategy for FY00-02 proposes an economic and sector work and lending program which appropriately concentrates on employment creation and poverty alleviation, with attention also to growth in the agricultural sector. The discussion in the draft CAS puts particular emphasis on public sector and governance reforms, and one project addresses this topic; such reforms should also result in improved growth and better social services. While the proposed program is relevant to Azerbaijan's needs, IDA could also do more to improve the environment for private sector development and to strengthen the social safety net for those expected to be made redundant as the public sector is restructured and privatized.



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Alice Galenson was the Task Manager for this report. It was prepared by Ashok Khanna (consultant). Geri Wise provided administrative support.

1. Country Background

Political

1.1 After independence from the Soviet Union in 1991, Azerbaijan was mired in political difficulties until the end of 1995. It was involved in an undeclared war with Armenia, resulting in about 900,000 displaced persons (out of a population of 7.6 million) and one-fifth of the country under occupation. A cease-fire has held since May 1994. In addition, Azerbaijan had four governments between 1991 and 1993. After presidential elections in 1993, President Aliyev faced two coup attempts. Parliamentary elections in November 1995 restored political stability. Despite a political consensus for a market economy, reforms have often been delayed because of factional or personal interests.

Social

1.2 Azerbaijan had strong social indicators before independence. Basic food and consumer needs were met and access to health and education was universal. Since independence, however, social indicators have deteriorated, partly because of the large number of displaced people. About 60 percent of Azerbaijan's population are considered poor, compared with around 40 percent in other Central Asian countries. A recent study revealed chronic malnutrition among children and adults, contributing to the high prevalence and severity of anemia. Moreover, a significant increase in morbidity from infectious diseases has recently been noted, partly because of the abysmal water supply and sanitation service. The economic transition and the war have eroded the education system. Finally, environmental damage in Azerbaijan is severe, considered the worst in Transcaucasia. Nevertheless, Azerbaijan's life expectancy, infant mortality and education indicators still compare favorably with other countries in the region and with low-income countries in general.

Economic

1.3 In 1997, Azerbaijan registered a per capita income of US\$510. Because of the dislocation caused by the Soviet Union's collapse and the transition to a market economy, GDP declined from 1988, reaching a nadir of 34 percent of its value by 1995. Azerbaijan's GNP per capita declined more than that of its Central Asian neighbors between 1988 and 1997. Agricultural output, which contributes 30 percent to GDP, collapsed to one-third of its former level between 1991 and 1996, and industrial output fell by 60 percent. Budgetary deficits were out of control, peaking at 15.3 percent of GDP in 1993. Inflation averaged over 20 percent per month during 1992-94, fueled by monetary expansion and declining confidence in the new national currency, the *Manat*. Prospects for economic recovery began to improve in late 1994 when the first oil production sharing agreement was signed with international companies.

1.4 In 1995, with the political situation stabilizing, the government started a comprehensive economic stabilization and structural adjustment program supported by the IMF and IDA. Tight fiscal and monetary policies have generated impressive results. The budget deficit fell from 15.3 percent GDP in 1993 to 1.7 percent in 1997 and average consumer inflation was reduced from 411 percent in 1995 to 4 percent in 1997, lower than in any transition economy. Nominal exchange rate appreciation against the dollar of about 14 percent between end-1995 and end-1997 was a key element in macroeconomic stabilization, mainly because it built confidence in the *Manat*. Structural reforms also made important progress. The foreign trade and exchange rate

regimes and domestic prices have been liberalized. Privatization of agricultural land is 90 percent complete. In the industrial sector, all small-scale and 20 percent of medium- and large-scale enterprises have been privatized. The banking system is being restructured in preparation for privatization. The tax system and administration are being modernized and strengthened. An effective treasury system has been introduced to improve expenditure management. The pace of public sector governance reform and private sector development has been slow, however. Layers of regulations and corruption impose a high cost on new domestic and foreign investors, impeding investment and growth.

1.5 The year 1996 marked a turning point towards economic recovery, with GDP registering growth of 1.3 percent. Large foreign direct investments in oil fields contributed to increased growth rates in construction and services. Growth accelerated in 1997, fueled by a surge in foreign direct investment and rising oil exports. The economy grew at 5.8 percent, with construction growing at 66 percent and trade at 18 percent. There are no apparent signs that the *Manat's* strength has had an adverse impact on the non-oil economy. Although the *Manat's* appreciation against the dollar totaled about 14 percent during 1996 and 1997, the CPI based real effective exchange rate showed only a 2 percent increase in that period. The economy continued to grow rapidly in 1998, at about 10 percent, because of a 45 percent surge in investment. This growth performance occurred despite a collapse in oil prices and financial crisis in Russia (still the main trading partner). However, the industrial and agricultural sectors continued to decline until 1998, when output began to increase. Thus, economic growth was not broad-based; unemployment remained at about 19 percent. Azerbaijan has promising prospects, however, with substantial oil and gas resources, large reserves of iron ore and bauxite, a strong entrepreneurial tradition, an educated labor force, a diversified industrial base and fertile land.

2. Main Issues

2.1 The main problem confronting Azerbaijan is the high incidence of poverty and unemployment. A recent study classified over 60 percent of the households surveyed as poor and 20 percent as very poor. Among displaced persons, the incidence of poverty was 75 percent. Azerbaijan's economic decline and war with Armenia are the main causes of the high poverty incidence. Moreover, the current low level of social benefits does not provide effective protection. With expenditure levels of close to two-thirds of households below the poverty level, efficient public health, education and other services are essential. Expenditure on public health has, however, declined in real terms—in 1996, it was 17 percent of its 1991 level—and most health and other social indicators have declined in recent years. Improving the social protection system is important, but transfer programs alone cannot eliminate such widespread poverty.

2.2 Azerbaijan needs broad-based growth that generates employment. While oil and gas growth may have spillover effects on other sectors in the future, this has not yet occurred. Agriculture is mired in low productivity. Recently privatized farms are small and lack reliable access to inputs, water, mechanized equipment and finance. Complex regulations, corruption and lack of access to finance have hampered private business development. The *Manat's* appreciation has generated concern about the future competitiveness of agriculture and industry. Although the *Manat* is expected to depreciate by about 8 percent against the US dollar during 1999, the IMF and IDA are advising the government on managing larger inflows of foreign exchange in the medium to long term future. The unemployment level remains stagnant at a high level despite three years of GDP growth. Moreover, the low level of unemployment benefits has discouraged dismissal of redundant labor from public enterprises, which employ almost one million people.

Thus, the real level of unemployment and underemployment is probably higher. Finally, proposed reforms of the civil service, which employs about 600,000 people, and privatization of medium- and large-scale public enterprises, will result in substantial layoffs. Thus, the unemployment level may increase in the near future.

3. Country Assistance

Strategy

3.1 The Republic of Azerbaijan became a member of IBRD and MIGA in 1992 and of IDA and IFC in 1995. A limited CAS was presented to the Board with the first operation in 1995, and a full CAS was discussed in 1996. These papers were prepared prior to World Bank Group adoption of a *Framework for Involvement in Situations of Conflict*. That document defines a post-conflict country as having experienced widespread violence and failure of the State. The Framework also includes countries where more than 5 percent of the population has been displaced by violent conflict. Although Azerbaijan qualifies as a post-conflict country by the proportion of its displaced population, the assistance strategy and program were not developed within the Framework, probably because the CAS predated it. Nevertheless, the CAS clearly considered the displaced population and its impact on poverty and other social indicators.

3.2 The 1996 CAS focused on four main areas: (i) establishing a policy and institutional framework conducive to efficient and equitable private sector led sustainable growth; (ii) enhancing agricultural productivity and output to create employment and provide income for the rural poor; (iii) establishing an effective system of social protection to meet the most pressing needs of vulnerable groups; and (iv) assisting in resettling the large number of displaced persons. This strategy was to be implemented by aid coordination, economic and sector work and lending. IDA was to coordinate resource mobilization among the few donors active in Azerbaijan at the time. The proposed economic and sector work included regular economic reports and reports on agriculture, irrigation, health, social assistance and several infrastructure sectors.

3.3 The lending program included a structural adjustment loan to support macroeconomic stabilization (also supported by an IMF ESAF, EFF and CCFF) and structural adjustment; three projects for irrigation and agricultural development; one for health; and one for reconstructing war damaged areas. The CAS provided a good framework of specific targets and actions in several policy areas for monitoring and evaluating implementation. Complementing IDA's program, IFC's strategy was to catalyze private investment and improve local financial intermediation for small and medium-scale private enterprises by providing technical assistance and a line of credit to some private banks.

3.4 The World Bank Group's strategic objectives were relevant for Azerbaijan, as they focused on the main issues of growth, poverty alleviation and employment creation. They included enhancement of the social safety net during a period of economic decline and stagnation before oil and gas development could have significant wider effects on the economy. At the same time, they sought to generate growth and employment in agriculture and small enterprises and lay the policy foundation for sustainable private sector led growth. The proposed program of lending and ESW was, however, less focused on these key issues. In economic and sector work, greater emphasis on private sector development through an analysis of the business environment would have been a useful addition. In the lending program, a project to enhance the social safety net would have contributed to poverty alleviation.

Implementation

3.5 IDA has assisted in mobilizing resources from the donor community and from private investors. Two Consultative Group meetings and a Conference of International Investors have been held. Collaboration among an increasing number of donors has been good, with donors beginning to specialize in different activities. The IMF is taking the lead on macroeconomic stabilization and cooperating with the World Bank Group in financial sector reforms. EBRD and the Islamic Development Bank are focussing on power, industrial finance and infrastructure, and EBRD is working closely with IDA on a water supply project. IFAD co-financed IDA's farm privatization project. The EU has financed technical and humanitarian assistance. The CAS currently being prepared may be a joint document with EBRD, EU and the Japanese aid agency.

3.6 Implementation of other IDA program components was incomplete. While the Policy Framework Paper was updated annually with the IMF, no economic report was produced. In late 1998, IDA initiated work on a country economic memorandum. Three reports were prepared on agriculture and irrigation. Other reports addressed poverty, environment and health. FIAS staff visited Azerbaijan and prepared an informal back-to-office report highlighting some issues in the business environment. The reports are of good quality and proved useful for policy dialogue and project preparation. Unfortunately, planned reports on social assistance and insurance, private sector incentives and several infrastructure sectors were dropped because of budget and staff constraints. Azerbaijan's budget allocation was found to be 18 percent below the norm in a Bank wide study comparing actual budgets with norms based on country conditions. The average cost of economic and sector work in Azerbaijan in the last five years was about the same as in other countries in Central Asia and in the Bank, and about 7 percent lower than the ECA average.

3.7 In the lending program, a rehabilitation credit was fully disbursed and three projects were under implementation prior to the CAS. The completion report for the former rated it satisfactory (endorsed by a preliminary OED review). Macroeconomic stabilization was successful, but structural reform was uneven. Reforms of the trade and foreign exchange regimes and prices were successful, but privatization of medium- and large-scale industry was behind schedule. Progress in governance reform and private sector development was slow. Nonetheless, a policy dialogue with the government was established and the groundwork prepared for future reforms. The three other projects (two technical assistance and one water supply) are still being implemented.

3.8 The CAS proposed seven new projects (see annex B). QAG conducted a Rapid Quality at Entry Assessment for the Structural Adjustment Credit and the Pilot Reconstruction Project and found them satisfactory; the second tranche of the former project was recently released, with full compliance. Two of the seven proposed projects were delayed, however, and two new ones were added. The irrigation project was delayed because it took longer than expected for government agencies and IDA to gain knowledge of each other's processes and develop a trusting relationship (project preparation work was used to design the irrigation component under the Pilot Reconstruction Project.) The health project was dropped because IDA was unable to develop a constructive relationship with the minister (this project is included in the new CAS). Environment and cultural heritage projects were added. Projects are now being prepared in education and in agriculture (supporting land registration, rural financial services and advisory services for rural enterprises). Up to this point, however, the agriculture and health sectors have not received the timely and generous attention proposed in the CAS.

3.9 Despite a portfolio review and CPPR Action Plan prior to the CAS, project implementation remains problematic. By December 1998, disbursements were only 35 percent of appraisal estimates. The reasons for slow disbursement include procurement delays, shifts in project focus and delays in counterpart funding. Moreover, out of eight projects currently in the portfolio, the risk for three is considered substantial, mainly because of macroeconomic and sector policies, but also because of the implementing agencies' weak commitment. A QAG Rapid Supervision Assessment rated one of these projects, Petroleum Technical Assistance, as satisfactory. Implementation progress for one other project is currently rated unsatisfactory. The average project completion cost in Azerbaijan is about 25 percent higher than for Central Asian countries and 10 percent higher than the ECA average, while the average project supervision cost is about 10 percent lower than for Central Asian countries, but 30 percent higher than the ECA average.

3.10 IFC has approved over US\$230 million for projects in Azerbaijan. The biggest investment (US\$200 million) is in the oil industry, with the rest in the financial sector (totaling US\$4 million) and in beverages. No investment has been made in the large petroleum equipment industry, which has substantial potential. Moreover, assistance for non-oil private enterprises was small. Like other investors, IFC has encountered difficulties with corruption and the business environment.

Summary Assessment

3.11 IDA's strategic development objectives of poverty alleviation, employment growth and an improved framework for sustained private sector growth were relevant. While support for the government's stabilization and structural adjustment program has been reasonably successful, unemployment and poverty have not been reduced, and the social safety net remains weak. IDA's assistance program could have focused more closely on the objectives by providing more and earlier support for enhancing the social safety net and for privatization and private sector development. Moreover, implementation could have been more effective. Sector work and projects directed at the social safety net and private sector development were dropped. Perhaps IDA misjudged the government's commitment to these elements of the assistance program. Projects under implementation are experiencing disbursement delays, and the "project at risk" index is 37.5 percent, considerably higher than the recommended target of 20 percent. IDA's services were provided within normal efficiency bounds.

3.12 The direct impact on institutional development from technical assistance projects has been relatively modest, as both projects are experiencing problems. Because of strong government commitment, however, sustainability of macroeconomic stability and structural reform appears to be likely, especially if oil and gas sector growth have a catalytic effect on other sectors.

4. Future Country Assistance

4.1 Like many transition economies, Azerbaijan has experienced a steep decline in economic activity, accompanied by macroeconomic instability. In addition, Azerbaijan has had to accommodate about one million displaced people because of war. Consequently, poverty, unemployment and uncertainty have increased quickly. IDA was right to encourage Azerbaijan to stabilize its economy and implement structural reforms. But these measures resulted in further cuts in social expenditures and employment, exacerbating poverty. Imminent reforms may result in additional unemployment. Because of a substantial inflow of foreign investment into the oil and gas sector, Azerbaijan turned the corner in 1996 and resumed growth. However, that growth has not yet stimulated a strong output response in the non-oil economy. The 'spill-over' effects to generate vigorous growth in other sectors may take several more years. Thus, during the next few years, in addition to pursuing measures to promote broad-based growth, IDA should support vigorously actions to generate employment and provide a social safety net.

4.2 The Region has circulated a draft country assistance strategy to cover the FY00-02 period that is expected to be presented to the Board in July 1999. IDA proposes to assist the government in comprehensive reforms of the public sector to improve efficiency and governance; promote private sector development by privatizing state-owned banks and raising agricultural productivity; and improve social protection and services including health, education, and water. IFC's complementary assistance strategy will focus on developing the oil equipment industry and financial system (private banks, investment fund and stock market). The CAS provides some country performance benchmarks such as non-oil and agricultural GDP growth, poverty headcount, and government credibility index for monitoring progress. These data are available and appropriate for measuring IDA performance. In addition, the level of unemployment should be included the list of benchmarks.

4.3 The draft CAS proposes an economic and sector work and lending program which appropriately concentrates on employment creation and poverty alleviation, with attention also to growth in the agricultural sector. All economic and sector work, other than annual updates of the Policy Framework Paper, focuses either on poverty and social issues or on private sector development. Out of twelve proposed projects, five directly address poverty and social issues and an additional three, agricultural development. The discussion in the draft CAS puts particular emphasis on public sector and governance reforms, and one project addresses this topic; such reforms should also result in improved growth and better social services. While the proposed program is relevant to Azerbaijan's needs, IDA could also do more to improve the environment for private sector development and to strengthen the social safety net for those expected to be made redundant as the public sector is restructured and privatized.

Comments from the ECA Regional Staff on the CAE

The regional staff agrees with the thrust of the message of the Country Assistance Evaluation (CAE) which is to further strengthen the focus on poverty alleviation and employment creation through Bank assistance to broad based growth, private sector development, especially agriculture, and a more effective provision of social services. The staff also acknowledges that past IDA strategy (1996-99) was designed to reach the above objectives, but does not share the view that the past IDA program deviated from that strategy. The irrigation project was delayed and the health project was dropped (it is now back in the current CAS), only to better secure ownership from the Government and civil society. The preparation of the irrigation project is now well advanced. We have been bringing health policy issues at the highest level of Government and we are including the project again in the FY00-02 CAS.

On a related issue, the staff would not agree with the statement that not enough timely and generous attention was given to agriculture. The farm privatization project was approved in FY97, on time, and is now considered as best practice for Central Asia countries. The agricultural development and credit project was approved in FY99, as expected. Substantial sector work was done to fully develop a strategy and help design relevant projects.

Regarding future Bank assistance strategy, where OED suggests that more emphasis should be given to private sector development (PSD), the staff would like to mention that, in addition to Bank operations in the CAS dealing directly with PSD, the focus on public sector reform is a precondition to additional growth and efficiency in the private sector.

As set forth in the draft CAS FY00-02, one of the components of the public sector reform operation will focus on legal and judicial reform in Azerbaijan. The private sector cannot prosper without a legal and judicial system that can effectively protect private property, enforce contracts, defend economic rights against infringement, and establish a secure environment for local and foreign investment and market relations. The main objectives of the legal and judicial component will be to improve the quality of the legal framework, to strengthen the independence of the judiciary and to increase the capacity of judicial institutions. Emphasis will be made for the strengthening and reforming of the commercial courts which are currently not able to meet the rapidly growing needs of commercial transactions.

1996 Proposed and Actual Work Program

<i>Fiscal Year</i>	<i>Proposed ESW</i>	<i>Actual ESW</i>	<i>Proposed Projects</i>	<i>Actual Projects</i>
FY97	Policy Framework Paper Environment Action Plan Irrigation Sector Note Public Infrastructure Review Agricultural Incentives Health Sector Note	Irrigation Sector Note+ Policy Framework Paper Environment Action Plan Health Sector Note Poverty Assessment Financial Sector Review	Structural Adjustment Farm Privatization Gas Rehabilitation	Struc. Adj. Farm Priv. Gas Rehab.
FY98	Policy Framework Paper Economic Report Social Assistance & Ins. Private Sector Incentives	Policy Framework Paper Environment Action Plan Agric. Sector Update	Pilot Reconstruction Irrigation	Pilot Recon. Environ. Invest.
FY99	Policy Framework Paper Economic Update Energy Update Transport Sector Note	Policy Framework Paper Economic Report Agriculture Sector Note	Agric. Dev. Health	Agric. Dev.* Education* Cultural Heritage

+ Completed in April 1995; * Being Prepared

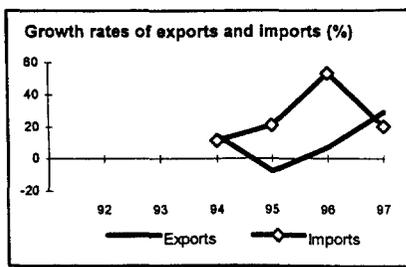
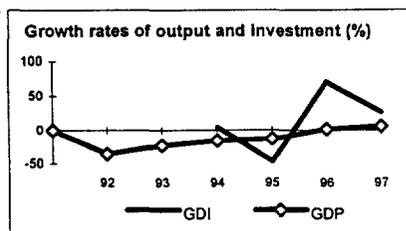
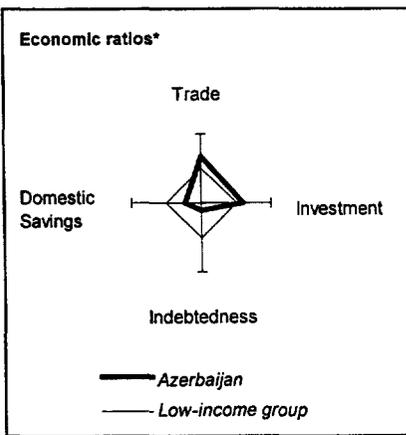
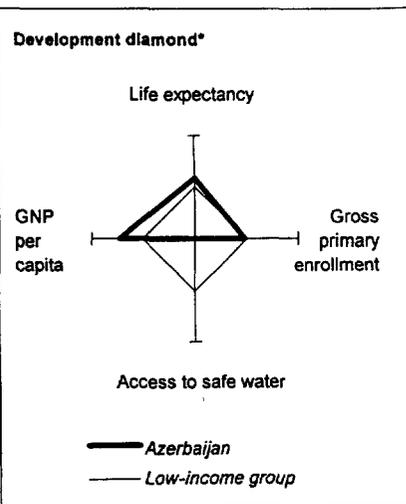
Source: Azerbaijan: Country Assistance Strategy, 1996.

TABLE 1A:

Azerbaijan at a glance

9/29/98

POVERTY and SOCIAL	Europe & Central Asia		Low-income		
	Azerbaijan				
1997					
Population, mid-year (<i>millions</i>)	7.6	478	2,048		
GNP per capita (<i>Atlas method, US\$</i>)	510	2,320	350		
GNP (<i>Atlas method, US\$ billions</i>)	3.9	1,106	722		
Average annual growth, 1991-97					
Population (%)	0.8	0.2	2.1		
Labor force (%)	1.4	0.5	2.3		
Most recent estimate (latest year available, 1991-97)					
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	56	67	28		
Life expectancy at birth (<i>years</i>)	70	69	59		
Infant mortality (<i>per 1,000 live births</i>)	19	25	78		
Child malnutrition (% of children under 5)	10	..	61		
Access to safe water (% of population)	..	..	71	
Illiteracy (% of population age 15+)	..	..	47	
Gross primary enrollment (% of school-age population)	87	92	91		
Male	..	..	100	
Female	..	..	81	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1976	1986	1996	1997	
GDP (<i>US\$ billions</i>)	..	..	3.4	4.1
Gross domestic investment/GDP	..	..	23.6	26.8
Exports of goods and services/GDP	..	..	20.8	18.9
Gross domestic savings/GDP	..	..	2.8	8.2
Gross national savings/GDP	..	..	3.2	7.8
Current account balance/GDP	..	..	-25.5	-23.7
Interest payments/GDP	..	..	0.4	0.8
Total debt/GDP	..	..	12.8	12.3
Total debt service/exports	..	..	1.3	21.2
Present value of debt/GDP	..	..	9.8	..
Present value of debt/exports	..	..	43.3	..
	1976-86	1987-97	1996	1997	1998-02
(<i>average annual growth</i>)					
GDP	1.3	5.8	..
GNP per capita	0.8	3.9	..
Exports of goods and services	6.9	29.1	..
STRUCTURE of the ECONOMY					
	1976	1986	1996	1997	
(% of GDP)					
Agriculture	..	..	22.9	21.9
Industry	..	..	19.2	18.4
Manufacturing	..	..	..	..
Services	..	..	57.9	59.7
Private consumption	..	..	88.2	84.0
General government consumption	..	..	9.0	7.8
Imports of goods and services	..	..	41.6	37.5
	1976-86	1987-97	1996	1997	
(<i>average annual growth</i>)					
Agriculture	..	..	3.0	-6.0
Industry	..	..	-0.7	22.0
Manufacturing	..	..	-6.7	0.1
Services	..	..	1.3	4.0
Private consumption	..	..	2.5	2.7
General government consumption	..	..	9.0	30.0
Gross domestic investment	..	..	70.7	26.9
Imports of goods and services	..	..	52.9	20.1
Gross national product	..	..	-0.4	3.1

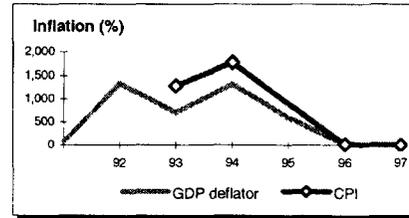


Note: 1997 data are preliminary estimates.

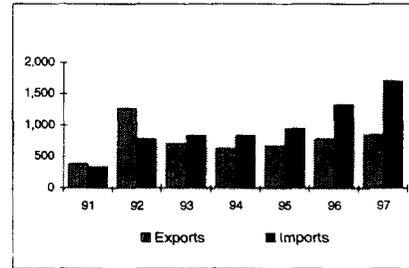
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

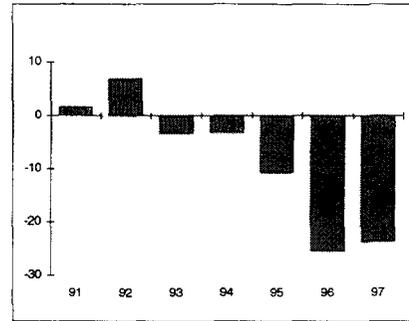
	1976	1986	1996	1997
Domestic prices (% change)				
Consumer prices	20.0	3.3
Implicit GDP deflator	17.2	5.5
Government finance (% of GDP, includes current grants)				
Current revenue	17.6	19.7
Current budget balance
Overall surplus/deficit	-2.8	-1.7

**TRADE**

(US\$ millions)	1976	1986	1996	1997
Total exports (fob)	789	857
Commodity 1
Commodity 2
Manufactures
Total imports (cif)	1,338	1,708
Food
Fuel and energv
Capital goods
Export price index (1995=100)	103	98
Import price index (1995=100)	102	97
Terms of trade (1995=100)	101	101

**BALANCE of PAYMENTS**

(US\$ millions)	1976	1986	1996	1997
Exports of goods and services	938	1,154
Imports of goods and services	1,764	1,984
Resource balance	-826	-830
Net income	-52	-52
Net current transfers	67	33
Current account balance	-811	-849
Financing items (net)	835	992
Changes in net reserves	-24	-143
Memo:				
Reserves including gold (US\$ millions)	214	467
Conversion rate (DEC. local/US\$)	4,301.3	4,200.0

**EXTERNAL DEBT and RESOURCE FLOWS**

(US\$ millions)	1976	1986	1996	1997
Total debt outstanding and disbursed	435	504
IBRD	0	0
IDA	64	116
Total debt service	10	78
IBRD	0	0
IDA	0	0
Composition of net resource flows				
Official grants	53	60
Official creditors	44	26
Private creditors	0	8
Foreign direct investment	601	650
Portfolio equity	0	0
World Bank program				
Commitments	20	85
Disbursements	36	55
Principal repayments	0	0
Net flows	36	55
Interest payments	0	0
Net transfers	35	55

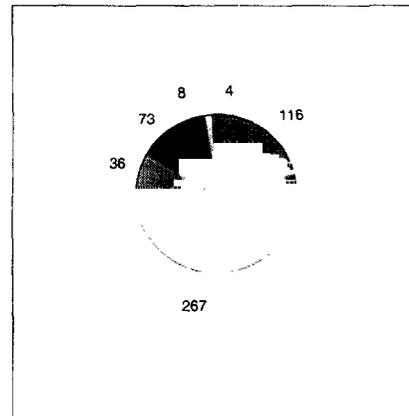


Table 1B: Azerbaijan Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1992-97	Europe & Central Asia	Low-income
POPULATION					
Total population, mid-year (millions)	5.7	6.7	7.6	474.0	2,035.6
Growth rate (% annual average)	1.9	1.6	0.6	0.1	1.7
Urban population (% of population)	51.5	53.6	56.3	67.0	28.4
Total fertility rate (births per woman)	3.9	2.9	2.1	1.7	4.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	68.1	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US\$)	..	..	510	2,310	350
Consumer price index (1995=100)	..	..	..	..	122
Food price index (1995=100)	..	0	117	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	1.0	4.0	1.0
Education (% of GNP)	..	..	3.3	5.4	..
Social security and welfare (% of GDP)	..	..	..	8.8	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	..	92	..
Male	..	..	..	93	..
Female	..	..	..	92	..
Access to safe water					
<i>(% of population)</i>					
Total	..	..	..	..	69
Urban	..	..	..	..	80
Rural	..	..	..	..	66
Immunization rate					
<i>(% under 12 months)</i>					
Measles	..	..	99	91	74
DPT	..	..	95	89	76
Child malnutrition (% under 5 years)	..	..	10	..	..
Life expectancy at birth					
<i>(years)</i>					
Total	69	69	71	69	59
Male	65	66	67	64	58
Female	73	73	75	73	60
Mortality					
Infant (per thousand live births)	..	29	20	23	82
Under 5 (per thousand live births)	..	..	23	30	118
Adult (15-59)					
Male (per 1,000 population)	247	262	213	287	274
Female (per 1,000 population)	117	127	101	122	255
Maternal (per 100,000 live births)	..	39	44	..	..

TABLE 2: AZERBAIJAN: KEY ECONOMIC INDICATORS, 1988 - 1997

Indicator	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Average 1988- 1997
GDP growth (annual %)	0.2	-6.3	-11.7	-0.7	-35.2	-23.1	-15.7	-13.3	1.2	3.2	-10.1
GNP per capita growth (annual %)	-1.3	-7.4	-12.6	-1.8	-36.0	-23.8	-16.3	-14.1	-1.3	2.6	-11.2
GNP per capita, Atlas method (current US\$)	..	1610	1460	1420	880	650	530	460	460	510	887
GNP per capita, PPP (current international \$)	4580	4240	3760	3790	2540	1980	1690	1490	1490	1520	2708
Population growth (annual %)	1.6	1.1	1.1	1.2	1.2	1.0	0.7	0.7	0.9	0.5	1.0
Agriculture, value added (% of GDP)	20.7	20.1	23.0	22.9	21.9	21.7
Manufacturing, value added (% of GDP)	19.5	19.3	17.9	..	18.9
Services, etc., value added (% of GDP)	59.8	60.4	57.7	57.9	59.7	59.1
Exports of goods and services (% of GDP)	48.3	56.1	26.8	20.8	18.9	34.2
Imports of goods and services (% of GDP)	60.9	69.5	43.4	41.6	37.5	50.6
International tourism, receipts (% of total exports)	3.3	8.6	7.8	18.6	20.9	..	11.8
Current account balance (% of GDP)	1.5	6.9	-3.4	-3.3	-10.8	-18.2	..	-4.6
Resource balance (% of GDP)	-12.6	-13.4	-16.6	-20.8	-18.6	-16.4
Agriculture, value added (annual % growth)	-17.6	-0.7	-0.2	-3.0	-5.4
Manufacturing, value added (annual % growth)	-14.3	-7.3	..	-10.8
Services, etc., value added (annual % growth)	-15.1	-17.2	2.3	7.6	-5.6
Exports of goods and services (annual % growth)	14.5	-7.5	-0.1	6.8	3.4
Aid (% of GNP)	0.0	0.1	0.5	4.0	3.1	3.0	..	2.1
Aid (% of gross domestic investment)	8.89	16.45	24.17	11.90	14.76	15.2
Aid per capita (current US\$)	0.0	5.0	11.2	19.9	15.8	14.1	24.0	12.9
World Bank Aid (% of total aid)
Money and quasi money (M2) as % of GDP	33.5	49.5	49.9	10.2	9.8	..	30.6
Money and quasi money growth (annual %)	825.8	1116.5	25.42	17.093	41.43	405.3
Inflation, consumer prices (annual %)
Credit to private sector (% of GDP)	9	9	3	1	1	2	4.2
Domestic credit prov. by banking sector (% of GDP)	57.2	47.0	39.6	10.4	11.3	..	33.1
Gross domestic savings (% of GDP)	7.5	11.1	-2.5	3.7	9.5	5.9
Gross domestic investment (% of GDP)	20.1	24.5	14.1	24.5	28.1	22.3
Gross international reserves in months of imports	1.1	1.7	..	1.4
Private investment (% of GDFI)
Total debt service (% of exports goods and services)	0.0	0.0	1.3	1.3	..	0.7
Overall budget deficit, including grants (% of GDP)
Expenditure, total (% of GDP)
Current revenue, excluding grants (% of GDP)
Tax revenue (% of GDP)
Trade (% of GDP)	109.2	125.7	70.2	62.3	56.4	84.8
Foreign direct investment, net inflows (% of GDI)	0.0	2.3	52.0	67.3	..	30.4
Illiteracy rate, adult total (% of people 15+)	..	2.7	..	..	..	..	..	..	..	..	2.7
Immunization, DPT (% of child. under 12 months)	84.0	91.0	72.0	38.0	90.0	..	95.0	..	78.3
Life expectancy at birth, total (years)	73.5	74.2	74.8	74.5	73.9	73.9	73.9	73.5	74	74.6	74.1
Mortality rate, infant (per 1,000 live births)	..	26.2	23.0	25.3	25.5	28.2	25.2	23.3	19.9	19.0	24.0
Safe water (% of population with access)
Sanitation (% of population with access)
School enrollment, primary (% gross)	95	91	90	90	90	87	85	77	77	..	86.9
Population density (people per sq km)	84.7	85.5	86.1	86.7	87.5	..	86.1
Urban population (% of total)	54.1	54.2	54.4	54.7	54.9	55.2	55.4	55.7	56.0	56.3	55.1

Source: WDI

TABLE 3: KEY ECONOMIC INDICATORS: AZERBAIJAN AND COMPARATOR COUNTRIES, 1988-1997¹

<i>All figures are annual averages for the period 1988-1997</i>	Azerbaijan	Armenia	Georgia	Kazakhstan	Tajikistan	Turkmenistan	Uzbekistan	Low Income Countries
GDP growth (annual %)	-10.1	-7.8	-10.4	-5.1	-9.5	-4.7	0.2	4.2
GNP per capita growth (annual %)	-11.2	-7.2	-9.8	-5.0	-10.5	-10.1	-2.6	2.1
GNP per capita, Atlas method (current US\$)	886.7	998.0	683.3	1682.2	565.6	2594.0	1011.1	325.0
GNP per capita, PPP (current international \$)	2708.0	3044.0	3158.0	4108.0	1688.0	5205.0	2642.0	1137.5
Agriculture, value added (% of GDP)	21.7	44.2	38.6	14.1	28.7	30.1	32.0	29.6
Industry, value added (% GDP)	19.2	39.1	30.0	34.9	34.7	33.3	32.1	27.5
Manufacturing, value added (% of GDP)	18.9	28.5	22.6	..	..	..	21.2	16.3
Services, etc., value added (% of GDP)	59.1	24.1	34.6	48.9	36.7	36.6	34.7	41.6
Exports of goods and services (% of GDP)	34.2	33.7	31.3	43.1	84.3	..	43.9	15.2
Imports of goods and services (% of GDP)	50.6	63.3	42.6	42.2	102.9	..	59.9	22.0
Trade (% of GDP)	84.8	94.2	76.1	90.8	187.2	..	94.4	34.5
Agriculture, value added (annual % growth)	-5.4	0.6	4.0	-12.2	..	..	0.6	3.3
Industry, value added (annual % growth)	-8.3	-12.7	1.7	-11.0	..	..	-0.9	4.9
Manufacturing, value added (annual % growth)	-10.8	-10.2	1.7	..	..	..	..	5.8
Services, etc., value added (annual % growth)	-5.6	-6.2	29.3	3.8	..	..	-0.1	5.3
Exports of goods and services (annual % growth)	3.4	4.5	9.0	-2.0	11.7	..	..	7.4
Imports of goods and services (annual % growth)	15.7	5.7	8.9	-9.7	-10.7	..	..	6.1
Aid (% of gross domestic investment)	15.2	96.6	141.4	1.7	13.5	..	3.4	19.6
Aid (% of imports of goods and services)	7.7	31.6	21.7	0.9	8.8	1.2	2.3	18.1
Aid per capita (current US\$)	12.9	38.6	28.8	4.6	10.9	4.8	3.3	13.8
Commercial energy use (kg of oil equivalent per capita)	19,826	5,184	5,355	77,800	4,123	27,766	44,067	771,474
Electric power consumption (kwh per capita)	2,162	1,740	1,890	4,745	2,807	1,661	2,028	254
Electricity production from hydroelectric sources (% of total)	7.4	30.5	67.4	10.0	94.8	2.0	13.0	31.3
Gross domestic savings (% of GDP)	5.8	-9.8	4.0	17.9	9.6	29.2	14.2	17.2
Gross domestic investment (% of GDP)	22.2	17.1	17.5	22.6	23.2	38.7	20.2	21.4
Gross domestic fixed investment (% of GDP)	21.2	17.6	10.1	23.5	20.9	..	29.2	..
Gross international reserves in months of imports	1.0	1.7	..	2.7	..	..	..	2.4
Total consumption, etc. (% of GDP)	94.2	109.8	96.0	82.1	90.4	70.8	85.8	82.8
Private consumption, etc. (% of GDP)	76.1	94.5	86.7	74.8	71.5	48.3	69.9	70.9
Current account balance (% of GDP)	-4.6	-11.8	-9.0	-2.8	-5.9	5.7	3.1	..
Foreign direct investment, net inflows (% of GDI)	35.6	9.3	8.2	16.6	2.4	..	3.7	3.7
Resource balance (% of GDP)	-16.4	-26.8	-13.5	-4.6	-13.5	-9.5	-6.0	-4.2
Total debt service (% of exports of goods and services)	0.7	4.3	2.6	3.2	0.1	5.5	4.7	..

<i>All figures are annual averages for the period 1988-1997</i>	Azerbaijan	Armenia	Georgia	Kazakhstan	Tajikistan	Turkmenistan	Uzbekistan	Low Income Countries
Credit to private sector (% of GDP)	4.2	13.7	..	18.8	..	25.7	..	22.2
Lending interest rate (%)	155.0	77.5	..	..	..	..	..	..
Domestic credit provided by banking sector (% of GDP)	29.4	24.7	..	20.5	..	5.4	..	43.6
Money and quasi money (M2) as % of GDP	16.5	13.6	..	8.4	..	7.7	..	..
Money and quasi money growth (annual %)	405.3	386.3	..	..	..	716.6	..	..
International tourism, expenditures (% of total imports)	4.9	1.9	..	5.4	..	8.6	..	3.5
International tourism, receipts (% of total exports)	12.2	2.4	..	..	..	0.7	..	4.8
Public spending on education, total (% of GNP, UNESCO)	5.5	5.3	5.2	3.7	7.4	4.2	9.0	3.3
Pupil-teacher ratio, primary	20.9	20.5	16.7	18.4	22.9	..	20.4	55.7
School enrollment, primary (% gross)	112.9	86.5	88.9	89.6	91.3	..	78.6	89.1
School enrollment, secondary (% gross)	86.9	85.8	80.9	93.6	88.7	..	97.7	36.7
Health expenditure per capita (current US\$)	31.0	27.0	..	42.0	..	..	..	..
Illiteracy rate, adult total (% of people 15+)	..	..	..	..	1.5	..	..	48.1
Immunization, measles (% of children under 12 months)	82.0	93.5	66.2	91.0	79.1	83.6	83.7	68.3
Life expectancy at birth, total (years)	74.1	75.5	76.2	72.0	70.9	69.2	72.1	58.5
Mortality rate, infant (per 1,000 live births)	..	..	..	59.1	..	..	..	18.8
Population density (people per sq km)	86.0	132.6	77.9	6.1	40.8	9.3	54.0	63.0
Population growth (annual %)	1.0	1.0	0.1	-0.35	2.1	3.1	2.2	2.2
Urban population (% of total)	55.1	68.1	57.2	58.63	32.3	45.0	40.9	26.5

Source: WDI

Note ¹: Averages are computed for available data points only.

TABLE 4: WORLD BANK PROJECT RATINGS SORTED BY SECTOR, FY88 - FY98

PROJECT DESCRIPTION		OED RATINGS					QAG RATING	SUPERVISION RATINGS		OTHER RATINGS					
<i>Loan #</i>	<i>Project Name</i>	<i>Commit. \$m</i>	<i>Approval FY</i>	<i>ARPP exit FY</i>	<i>Outcome</i>	<i>Sustain.</i>	<i>ID</i>	<i>Development Effectiveness Indicator</i>	<i>Bank perform.</i>	<i>Borrower perform.</i>	<i>At risk rating</i>	<i>Latest DO rating</i>	<i>Latest IP rating</i>	<i>Completion Delay (months)</i>	<i>Percent Cancelled</i>
<i>Projects Completed</i>															
C2773	REHABILITATION	65	1996	1997								U	S		0
C2978	SAC	77	1998	1999							NONRISKY	S	S		0
<i>Projects On-going</i>															
C2933	FARM PRIVATIZATION	15	1997								NONRISKY	S	S		
C3107	URGENT ENVIRONMENT INVESTMENT	20	1998								NONRISKY	S	S		
C2708	PETROLEUM TA	21	1995								POTENTIAL	S	S		
C2923	GAS REHABILITATION	20	1997								NONRISKY	S	S		
C2789	INSTITUTION BUILDING	18	1996								ACTUAL	U	NA		
C3109	PILOT RECONSTRUCTION	20	1999								NONRISKY	S	S		
C2751	BAKU WATER SUPPLY	61	1995								POTENTIAL	S	S		

TABLE 5: AZERBAIJAN - COUNTRY ASSISTANCE COST INDICATORS

Period	Average completion cost (\$ per project)		Supervision intensity: Direct cost inputs divided by the no. of projects under active supervision (\$) ^A		Average cost per dropped project (\$)		Cost per scheduled ESW report (\$)		Cost per unscheduled ESW report (\$)	
	Last 5 years	Last 10 years ^B	Last 5 years	Last 10 years	Last 5 years	Last 10 years	Last 5 years	Last 10 years	Last 5 years	Last 10 years
	Bank-wide	352,952	323,677	63,437	52,654	94,059	81,419	181,722	165,232	70,326	63,433
ECA	363,976	363,483	83,404	65,915	99,776	76,358	201,654	184,233	67,135	67,477
Azerbaijan	399,695	399,695	85,670.0	85,670.0	na	na	188,317	242,445	75,973	75,973
Armenia	254,525	225,355	79,759	76,442	na	46132	100,350	118,314	41,834	44,878
Georgia	258,966	258,966	112,973	112,973	140,024	140,024	124,509	155,091	77,061	77,061
Kazakhstan	390,231	390,231	104,237	104,237	91,893	91,893	182,314	186,421	83,693	116,984
Tajikistan	205,880	205,880	60,168	60,168	406	10,923	193,711	193,711	8,859	8,859
Turkmenistan	395,752	395,752	109,561	109,561	10,223	5,238	183,698	183,698	81,553	81,553
Uzbekistan	360,965	360,965	130,449	130,449	178,037	129,979	218,158	218,158	93,656	93,656

* Benchmark country to be selected by task manager

^A see Template "oed-spn.xls". ^B Since some templates do not have 1989, 10-year average limits to 1990-98 period

TABLE 6: AZERBAIJAN - LIST OF ESW

<i>Report name:</i>	<i>Report type</i>	<i>Date</i>	<i>Report number</i>
Country Economic Memorandum: from crisis to sustained growth (Vol.1)	Economic Report	9-Jul-93	11792
Poverty Assessment (Vols. 1 and 2)	Economic Report	24-Feb-97	15601
Financial Sector Review (Vols. 1 & 2)	Economic Report	6-Jan-97	15422

TABLE 7: BANK MANAGEMENT FOR AZERBAIJAN: 1991 - 1998

<i>Year</i>	<i>Vice President</i>	<i>Country Director</i>	<i>Country Operations Division Chief</i>	<i>Resident Representative</i>
1991	Willi A. Wapenhans	-	-	
1992	Michael Wiehen	Russell Cheetham	Adil Kanaan	
1993	Wilfried Thalwitz	Russell Cheetham	Kadir T. Yurukoglu	-
1994	Wilfried Thalwitz	Russell Cheetham	Kadir T. Yurukoglu	-
1995	Wilfried Thalwitz	Yukon Huang	Kadir T. Yurukoglu	-
1996	Johannes Linn	Yukon Huang	Kadir T. Yurukoglu	Kutlay Ebiri
1997	Johannes Linn	Ishrat Husain	n.a.	Tevfik Mehmet Yaprak
1998	Johannes Linn	Ishrat Husain	n.a.	Tevfik Mehmet Yaprak