Statement by Andrei Bugrov  
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Azerbaijan CAS

I welcome the presentation of the first joint Bank-IFC CAS for the Azerbaijan Republic and commend the country team for preparing this document.

In particular I appreciate the efforts to ensure broad ownership of the strategy through participation. The participatory process in the CAS preparation included formal dialog with the government counterparts, international NGOs and donors, as well as client surveys and field discussions with various groups of Azeri civil society. The report's assessment of the implementation outcome of the previous CAS for Azerbaijan contains serious criticism on several accounts. As I understand, the OED recommendations have been appropriately incorporated into the new CAS.

I support the proposed strategy. It takes into due consideration the authorities' commitment to reforms and receptivity to work closely with the World Bank Group and other international financial institutions. I agree with the main thrust of the new CAS which emphasizes the implementation of radical public sector reform. This agenda is ambitious indeed, and the determination of the Azeri authorities to fulfill it on a tight schedule deserves recognition and strong support. For instance, within the next 12 months they plan to complete an impressive cluster of reform measures concerning government finance and public procurement, administrative and civil services, and legal and judicial systems.

In my opinion, the paper correctly identifies the key priorities of the social agenda in Azerbaijan and proposes to respond with quite a comprehensive program of IDA assistance. The latter includes health, education and pension reform projects, as well as specific poverty targeted interventions. We welcome very much the proposed program.

Among the recent positive developments in Azerbaijan we note the Government's strides —
apparently, supported by the Bank's advice -- in improving the rules and procedures of the privatization process in order to make the forthcoming privatization of larger and more valuable enterprises more transparent and less susceptible to abuse. Recent experience of several transition countries has shown that the turning over productive assets from the state to the "wrong" private owners, who are incapable and/or unwilling to run them well, cannot improve performance of the economy.

Hence, a conclusion has been drawn by many policymakers and observers that privatization is the right thing to do when it can be done the right way. In the light of this and also taking into account the Bank's intention to play the role of chief privatization adviser to the Azeri Government, I would appreciate some comments on the policy advice the Bank can currently offer in this important area. Does the Bank intend to pursue active privatization on a case-by-case basis? What changes to the traditional privatization processes could be introduced to ensure successful transfer of assets?

There is no doubt that Azerbaijan has very good agricultural potential. Agriculture and agri-business offer ample opportunities for expanding output, creating employment and providing incomes in rural areas where the majority of the poor live. Therefore we expressed our strong support of the special focus on agriculture sector proposed in the previous CAS. Regretfully, the actual Bank Group assistance for agricultural development in FY96-99 fell short of the expectations. In the meantime growth rates in agriculture remained negative and rural poverty continued to increase. The new CAS seems to be cognizant of the unfinished agenda in this sector. I look forward to full and effective implementation of the measures which have been planned to address it and support the Government's agricultural development initiatives.

Similarly, I would encourage the Bank Group's effective contribution to non-oil industry and financial sector development in Azerbaijan. In these sectors IFC and MIGA involvement could be very helpful. The CAS paper informs that currently MIGA has applications pending for projects in finance, infrastructure, manufacturing, services and tourism. IFC already has active, albeit modest, portfolio beyond the oil sector, as well as a number of such projects in the pipeline and at an early stage of preparation. At the same time, signaling that there are serious impediments to private sector development and foreign investments in Azerbaijan, the paper underscores time and again, that the intensity of IFC support will depend on the Government's success in reducing corruption and improving the legal environment.

The above provision also relates to future IDA/IBRD lending. Steady progress in public sector reforms and governance will serve as a main trigger for the "base case" lending program which includes structural adjustment operations. Such linkage, as well as the proposed set of program triggers as a whole seem to be appropriate. The only question I have is the adoption of the privatization law which, if I am not mistaken, was submitted for approval by the Parliament long time ago. Has there been any progress in this matter?

At the starting point of the new CAS the Bank is aiming at the "base case" scenario, and I agree with such stance. I also agree with the composition of the lending program. As far as it
concerns its amount, I wonder which of the two figures is correct: the one in the main text of the CAS paper, or the one in the Annex B3. The list of the planned non-lending services looks adequate. However, we would prefer an earlier update of the poverty assessment so that its findings could have been reflected in the CAS.

To conclude, I would like to wish the authorities and people of Azerbaijan every success on the difficult path of transition.