

World Bank Group Azerbaijan Partnership Program Snapshot



April 2015

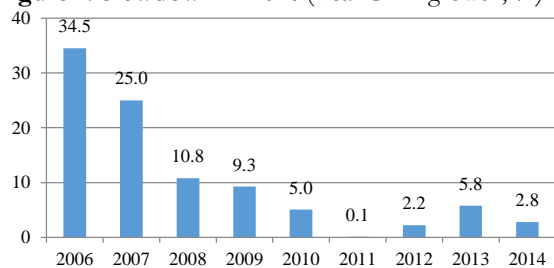


RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

Growth Performance

Growth decelerated to 2.8 percent in 2014, reflecting a decline in oil production and slow growth in the non-oil sectors. After a brisk 5.8 percent growth in 2013, the economy slowed down in 2014 (figure 1), and oil GDP contracted by 2.8 percent due to lower production. The non-oil economy grew by 6.9 percent, slower than in 2013. Growth in the construction sector, which has been stellar in recent years, fell to 9.1 percent in 2014 from 23 percent in 2013. The agriculture sector showed strong growth in the first half of 2014; however, severe droughts in the summer significantly reduced agricultural outputs in the second half, leading to an overall 2.6 percent fall during the year. With the dwindling oil output and expanding non-oil sectors, the oil sector accounted for 37 percent of total GDP in 2014.

Figure 1. Slowdown in 2014 (Real GDP growth, %)

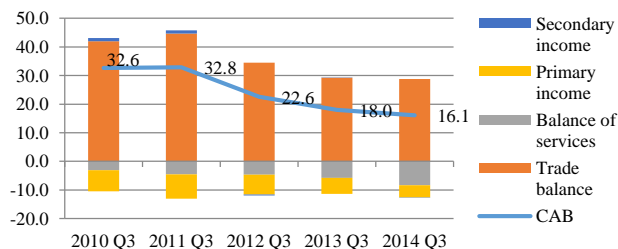


Source: Azerbaijan State Statistical Committee (AzSTAT).

External Sector

Azerbaijan's current account surplus narrowed in 2014 due to reduced oil exports. Estimates of the current account surplus showed a deterioration to about 14 percent of GDP by end-2014 (figure 2).

Figure 2. Current account balance surplus shrunk, reflecting falling oil exports (% GDP)



Source: Azstat; World Bank staff calculations.

Total exports fell by 9 percent, as major exports of oil were 9 percent lower. Non-oil exports fell by 5.4 percent; the fall was more acute in November–December 2014, driven by a deterioration in the competitiveness of the manat (AZN) in real terms as the currencies of trade partners depreciated.

Imports experienced a decline of 10.6 percent due to weak demand and the impact of new regulations. Falling demand from the construction industry contributed to the decline in imports of iron, steel, glass, machinery, wood, and cement. Stricter environmental standards on imported cars led to a drop in auto imports.

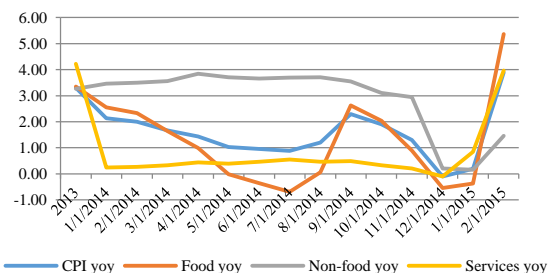
Exchange Rate and Inflation

Facing mounting pressures on the manat, the Central Bank lost 27 percent of its reserves from November 2014 to February 2015. During this period, the Central Bank of Azerbaijan (CBA) sold reserves to keep the manat exchange rate stable. In an attempt to ease the pressure on reserves, the CBA moved from a dollar peg to a peg to a dual dollar-euro basket on February 16, without disclosing the specific weights of the basket. However, this triggered substantial demand for the dollar and the CBA heavily intervened, selling more than US\$1.1 billion in the following week.

The Central Bank subsequently devalued the manat by 34 percent on February 21, 2015 to AZN 1.05 per U.S. dollar, referring to the need to ensure non-oil competitiveness. Depreciation pressure stemmed mainly from falling oil prices and currency depreciations by trading partners, resulting in a real effective exchange rate appreciation of 16.9 percent from January 2014 to January 2015.

Inflation in 2014 was low but quickly picked up after the manat devaluation in February 2015. Annual inflation declined to 1.4 percent in 2014 from 3.5 in 2013. This fall was driven by low food prices, which account for 42 percent of the consumer price index (CPI) basket. Although aggregate demand remains weak, the devaluation and higher import prices passed through to contribute to higher inflation. The CPI data for February 2015 showed a significant 4 percent month-on-month increase. Prices for food recorded a 6.6 percent increase in one month, while prices of non-food products and services grew by 3.1 percent and 1.3 percent, respectively (figure 3).

Figure 3. Inflation has been low but picked up in February
(% change, year-on-year)



Source: CBA.

Fiscal Developments

Fiscal consolidation in 2014 led to a surplus of 2.8 percent of GDP. Consolidated expenditures were 4.1 percent lower in 2014, with the size of the investment program 10 percent lower than in 2013. The surplus was possible despite consolidated revenues being 0.5 percent lower than in 2013. Revenues from the sale of oil and gas shrunk by 6 percent in 2014, and transfers from the State Oil Fund of Azerbaijan (SOFAZ) were 17.7 percent lower. Non-oil revenues recorded a 13 percent growth, reflecting the expanding non-oil economy.

In 2014, Azerbaijan’s public debt amounted to 15 percent of GDP, of which foreign debt was 8.6 percent of GDP. In terms of maturity composition, 7.3 percent of the debt will mature in 10 years or less, 60.2 percent will mature in 10–20 years, and 32.5 percent has a maturity of more than 20 years. Despite the low oil price outlook, the overall default risk on Azerbaijan’s public debt is quite low. Although Standard & Poor’s had rated the country’s sovereign credit as investment grade in 2011, citing low debt and high international reserves as favorable factors, the outlook was revised in early 2015 from stable to negative, reflecting possible fiscal challenges in the face of low oil prices.

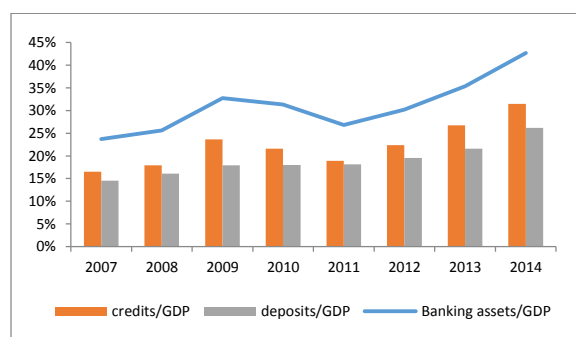
Financial and Private Sector

In the last quarter of 2014 to the first quarter of 2015, foreign currency deposits grew by 27 percent year-on-year (compared to 8 percent growth in 2013), while local currency deposits grew by 21 percent (compared to 27 percent in 2013). Azerbaijan’s banking sector is less exposed to foreign currency risks than other countries, as 70 percent of loans and 50 percent of deposits are denominated in local currency. However, exposure of the International Bank of Azerbaijan (the largest bank) to foreign currency risks is large, as it accounts for the bulk of cross-border transactions, including for the state and large oil companies. Growing household indebtedness from

foreign exchange–denominated loans, accompanied by the devaluation and the reduced inflow of remittances from Russia, may translate into an increasing loan servicing burden to individual borrowers and increased poverty pressures.

Although the performance of the banking sector improved in 2014, wide variations exist between banks in terms of credit quality and capital. Banking assets grew by 23.5 percent to reach 43 percent of GDP, credits grew by 20.2 percent to reach 31 percent of GDP, and deposits grew by 23.9 percent to reach 26 percent of GDP in that year (figure 4). The capital adequacy ratio (CAR) increased to 19.2 percent, which is above the minimum requirement of the CBA of 12 percent, with a return on assets (ROA) of 1.69 percent and a return on equity (ROE) of 11.6 percent. Liquid assets to total assets increased from 11.2 to 12.8 percent. Nonperforming loans (NPLs) to total loans increased slightly from 5.1 percent in 2013 to 5.3 percent in 2014 and remain at a relatively low level; however, these figures might be understated, as only the overdue portion of the principal and interest is reported as NPLs.

Figure 4. Financial Penetration Indicators (in %)



Source: CBA.

The financial sector continues to be dominated by banks, and the non-banking sector still offers limited opportunities. Banks hold about 95 percent of total financial sector assets. The leasing industry is very small but gaining in popularity; insurance services also remain small but are experiencing high growth. Venture capital and private equity are at a nascent stage. Capital markets are dominated by government securities and corporate bonds, with stock market and debt market capitalization ratios below 1 percent of non-oil GDP. However, the private capital market is rapidly developing, with more issuers recorded in 2013–14.

Overall, private sector development trends were positive in 2013. The share of the private sector in GDP was stable at 85 percent, and the private sector accounted for over 74 percent of total employment in the country. The share of private sector production

reached 81.4 percent of total industry production during 2013, and the share of tax revenues from the private sector was 72.4 percent.

Azerbaijan was ranked 80 out of 189 countries in the 2015 *Doing Business* report. Azerbaijan ranks high in some of the categories, but is in the lowest quintile in others. For example, in starting a business and registering property, Azerbaijan does particularly well and holds ranks of 12 and 10, respectively. However, the country is one of the worst performers in dealing with construction permits, getting electricity, and trading across borders (table 1). Unfair competition and monopolization of the economy continue to be issues in Azerbaijan.

Azerbaijan slightly improved its ranking from 39 to 38 in the *Global Competitiveness Report (GCR) 2014–2015* published by the World Economic Forum. Corruption still remains a major concern, followed by access to finance, tax rates, and an inadequately educated workforce. Azerbaijan also performed poorly in the financial market development pillar, where the country ranking was 89 out of 144 countries. According to the report, the availability of financial services (which was ranked 92nd), the affordability of financial services (77th), the soundness of banks (100th), and the regulation of securities exchanges (93rd) have yet to be adequately developed in Azerbaijan.

Table 1. Doing Business Ranking (2015)

TOPIC RANKINGS	DB 2014 Rank	DB 2015 Rank	Change in Rank; minus means improvement
Doing Business Rank	88	80	-8
Starting a Business	11	12	1
Dealing with Construction Permits	167	150	-17
Getting Electricity	161	159	-2
Registering Property	11	10	-1
Getting Credit	99	104	5
Protecting Minority Investors	50	51	1
Paying Taxes	65	33	-32
Trading Across Borders	165	166	1
Enforcing Contracts	31	31	0
Resolving Insolvency	90	94	4

Source: *Doing Business* Report 2015 and 2014.

Economic Outlook

Economic growth is projected to be an annual average of 2.3 percent over the next three years. Oil production is expected to continue to decline. In the

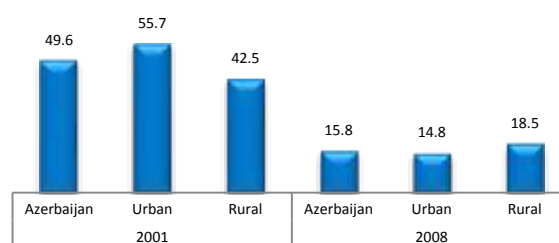
past, the economy expanded via increasing public investment in the non-oil sector; however, with low oil revenues over the medium term, the Government's capital expenditures will be constrained. Public investment is projected to fall to 10.3 percent of GDP averaged over 2015–17, and this will yield a low average growth of non-oil GDP of under 4 percent.

Fiscal deficits averaging 3 percent of GDP are expected over the medium term. The Government's oil revenues will be kept at a low level due to the low oil price outlook, but over the medium term the budget still needs to finance many large ongoing projects. The fiscal deficit is projected to deteriorate to 5.1 percent of GDP in 2015. As oil prices are expected to continue to be depressed, the Government will need to help the economy diversify productive activities and continue to consolidate its expenditures to allow the fiscal gap to narrow in the medium term.

Poverty and Labor Market Developments

Azerbaijan has achieved an impressive reduction in poverty. Using a comparable measure of consumption and assessing against a poverty line of AZN 57.75 per capita per month (in 2008 prices), the World Bank estimated that the share of the population living below the poverty line declined from nearly 50 percent in 2001 to less than 16 percent at the beginning of 2008 (figure 5).¹ This decline in absolute poverty is also visible when poverty is measured using national as well as international poverty lines. The national poverty rate declined from close to 50 percent in the early 2000s to 5 percent in 2013, while extreme poverty fell from levels above 20 percent to under 3 percent during the same period.

Figure 5. Poverty Reduction (2001–08)



Source: 2001 HBS and 2008 Living Standards Measurement Survey (LSMS), World Bank 2010.

Households in the bottom two quintiles of the distribution (i.e., the bottom 40 percent) experienced consumption growth of over 2 percent per year

¹ World Bank, "Azerbaijan: Living Conditions Assessment Report," Report 52801 (Washington, DC: World Bank, 2010).

between 2007 and 2012, over twice the rate of the top 60. According to the latest available figures on international poverty rates, the share of the country's population living on less than US\$5 per day declined from 86 percent in 2002 to 39 percent in 2008. Extreme poverty, measured against a poverty line of US\$2.50 per day, fell from 11.5 percent in 2002 to 4.5 percent in 2008 and is currently believed to be below 3.0 percent. In addition, growth incidence analysis showed that consumption growth took place across the board.

Social transfers also contributed to the reduction in poverty, but spending is low by Europe and Central Asia (ECA) standards. A World Bank study from 2010 estimated that without social transfers, the poverty rates would have been higher in Azerbaijan.² The pro-poor distribution of social transfers makes them an important source of assistance for the poor. In 2008, Targeted Social Assistance (TSA) was found to perform well in reaching the very poor and poor; about 49 percent of TSA beneficiaries, receiving 51 percent of its resources, were from the bottom population decile. However, Azerbaijan continues to spend less than most countries in ECA on social protection, especially on labor market policies (0.1 percent of GDP) and social assistance (1 percent of GDP).

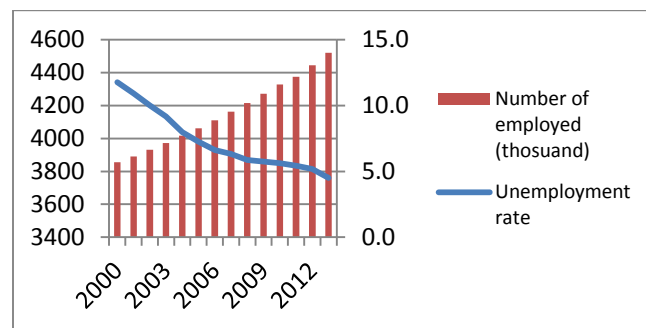
Inequality is high, especially in urban areas. The 2008 Living Standards Measurement Survey showed the countrywide Gini coefficient to be 31, with inequality in cities higher at 32.8 and lower in rural areas at 27.1. Almost two-thirds of the people who are in the richest 5 percent of the population live in cities. The disparity between urban and rural areas is larger at the top of the income distribution.

Despite the impressive poverty reduction, indicators of access to services show significant disparities between the rich and the poor. The poor appear to be much less likely to use health services (outpatient and inpatient care) than the non-poor. Large inequities also exist in gross and net tertiary education enrollment rates between rich and poor individuals. Enrollment rates in postsecondary education are slightly higher among boys than among girls. Less well-off households also tend to have limited access to basic infrastructure services; for example, only 20 percent of those in the poorest quintile have access to portable water.

In line with output expansion, new jobs were created in the non-tradable sectors, which led to a

decline in the unemployment rate to 4.9 percent in 2013 from 5.2 percent in 2012 (figure 6). The number of jobs increased by 1.7 percent in 2013, and the main contributors were the construction sector, hotels and restaurants, and retail trade. Although there was a rebound in oil production as well, it had no perceivable impact on employment because of the capital intensive nature of the industry. In Azerbaijan, the oil sector accounts for less than 1 percent of total employment.

Figure 6. Unemployment rate fell over time (in percent)



Source: AzSTAT.

Social Insurance and Social Protection

There is room for improvement in administering social assistance and in expanding its coverage.

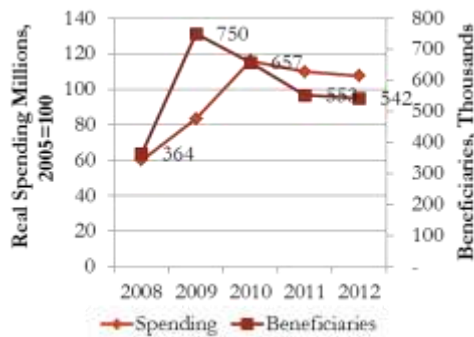
Administrative data reveal that the coverage of TSA increased steadily from its inception up to 2009, but has been falling since then and now reaches 542,000 people, or 6 percent of the population. The coverage expanded to 625,808 individuals, (143,337 households) in 2013. According to a recent analysis of survey data, in 2011, only a quarter of TSA beneficiary households lived below the national poverty line³ against an official poverty rate of 6 percent⁴ in 2012, suggesting that the program remains insufficient to cover most of the poor and that targeting must be dramatically improved. The same survey revealed that informal payments were required in 95 percent of cases in order to receive the documents needed for TSA, which could explain in part the low coverage of the program among the poor in spite of very high program recognition nationwide and a very reliable payment and management system. Initial steps have been taken by the Ministry of Labor and Social Protection of the Population to change the application and assessment procedures for TSA and improve the program's governance, transparency, and efficiency.

² Ibid.

³ World Bank analysis of the sample of TSA beneficiary households of the 2011 LSM (Living Standards Measurement survey).

⁴ Government of Azerbaijan, State Statistical Committee, "MDG Indicators of the Republic of Azerbaijan" (Baku: State Statistical Committee, 2013).

Figure 7. TSA spending and coverage declined



The Government of Azerbaijan is progressing with further reforms of TSA. The Government intends to advance beyond the “first generation” of social safety net reforms (i.e., the introduction of TSA) to the “second generation,” which will aim to develop a broader set of social services that could address the root causes of poverty. These services would then be linked to the provision of assistance to ensure that poor and vulnerable households eventually graduate from poverty and from dependency on social transfers.

Azerbaijan’s pension system has gone through significant changes since 2005. The changes introduced by two new laws—on labor pensions and on state pensions—involved streamlining the benefits and improving the linkage between benefits and contributions. All business processes are integrated through a comprehensive, fully automated management information system (MIS) that is recognized as a best practice in the region. Records of all 1.3 million pensioners are computerized, and the social insurance contributions of 1.97 million people are recorded in the Central Automated Registry. The Government is now well placed to harness the system for business planning and management purposes. To continue the reforms, the Government would have to address emerging concerns about the long-term fiscal sustainability of the pension system. In 2012, President Ilham Aliyev issued a decree requesting the Cabinet of Ministers to prepare a Pension System Development Strategy for Azerbaijan. The new Concept of Pension Reform was approved in 2014.

Internally Displaced Persons (IDPs)

Seven percent of Azerbaijan’s population (approximately 600,000 people) is displaced, making it one of the highest concentrations of IDPs in the world. Most of these IDPs were forcibly displaced in the years 1988–94 during the Nagorno-Karabakh conflict. While they face many of the same overall challenges as the poor in Azerbaijan, IDPs are particularly vulnerable in a range of areas: they are more likely to be poor, suffer worse living conditions,

and display lower employment and higher work inactivity rates than the non-displaced. The Government of Azerbaijan is committed to promoting economic opportunities for and the livelihoods of IDPs, which are critical to their welfare and sustainable development.



In 2011, the World Bank estimated the poverty rate among IDPs to be 25 percent, compared to 20.1 percent among the non-displaced. The most recent government estimates show the IDP poverty rate to be around 18 percent. IDPs remain a core stratum in the bottom 40 percent in spite of public investment, which has nevertheless helped relieve the living conditions of IDPs through improved housing and infrastructure.

Health

Azerbaijan has made significant progress on addressing maternal and child health. There are now fewer than 40 maternal deaths per year per 100,000 live births. Infant mortality has declined since 2000, although more recently, the trend has been more flat. Future progress on this indicator will increasingly require improvement in neonatal care (the first 28 days), which will in turn require improvements in the overall quality of care. It should be noted, however, that there is some uncertainty about the actual level of maternal and infant mortality rates in Azerbaijan. Nevertheless, although maternal and child health indicators remain below international standards, the trend of gradual improvement is beyond doubt.

Life expectancy as a health outcome, however, is stagnating. Life expectancy in Azerbaijan was not far behind that of Western Europe in the 1970s, but since that time, it has improved only slightly and is now falling behind. Responsibility for declining life expectancy falls largely on the high levels of noncommunicable diseases (cardiovascular and malignant neoplasms), which international experience suggests will require increased and better quality medical care, particularly at the primary health care level.

The Government continues to optimize its health care delivery system. It has made substantial progress in rationalizing public health facilities and health care staff, developing treatment protocols, training personnel, and introducing family doctors and a licensing system for health professionals. The State Program on Maternal and Child Health established a priority on vaccinations and better prenatal care. The Electronic Health Card program is being implemented to better coordinate the flow of health information between patients and doctors. The Government's strategy for health financing and insurance is currently pending, awaiting decisions regarding the governance of the health funds. Improvements are also being made to health care facilities through the construction of new regional hospitals and the upgrading of rural health centers with a focus on strengthening primary health care. To ensure the quality of medical services, the country has introduced the certification of health specialists.

Total health spending in Azerbaijan has significantly risen in recent years. Health budget allocations were increased more than two times between 2007 and 2014, from AZN 331 million in 2007 to AZN 777 million in 2014. In relative terms, the share allocated via the Ministry of Health has increased more rapidly compared to local/district allocations. The rising health budget has of course taken place in a context of a rapidly growing economy.

Health spending as a share of GDP remains low, despite the increases. As a result, out-of-pocket spending, which is highly unequal, is relatively high at about 70 percent of total health expenditures. High out-of-pocket expenditures on health may cause households to fall below the poverty line. Recent analysis of the 2011 household survey estimates that an additional 10 percent of Azeri households were poor as a result of out-of-pocket spending on health.

Education

Azerbaijan needs to move up the ranks of upper-middle-income countries in education outcomes, which requires long-term reforms in the education system. Primary enrollments are comparable to the level of high-income countries and indicate wide access to basic education. However, enrollments in preschool and higher education remain low. In addition, the quality of educational outcomes at all levels shows scope for improvement. Ongoing reforms to improve quality include the continuous implementation of national assessments and a new curriculum in general education. A nationwide in-service teacher training program has been under implementation to support the curriculum rollout.

Education expenditures have considerably increased in recent years, but not as fast as the GDP. Over the past decade, public spending on education dramatically increased in nominal terms from AZN 294 million in 2004 to AZN 1.5 billion in 2013, but not relative to the rapid GDP growth. In 2004, public spending on education was 3.4 percent of GDP. By 2013, it had dropped to 2.7 percent, much lower than ECA average of 4.5 percent and the averages of most upper-middle-income countries.

Education quality, as reflected by the performance of Azeri students in international assessments, is not satisfactory. In the 2009 Program for International Student Assessment (PISA), Azeri students on average scored 362, 431, and 373 for reading, math, and science, respectively, much lower than Organization for Economic Co-operation and Development (OECD) countries' average of around 500 for each tested subject. As the curriculum reforms draw close, Azerbaijan will participate in the Progress in International Reading Literacy Study (PIRLS) 2016 to test the reading proficiency of Grade 4 students, which will provide an opportunity to assess the latest status of this aspect of student achievement.

One of the most important elements to be addressed in overall education reform is tertiary education, given its importance to social and economic development. Azerbaijan's tertiary education enrollment is the second lowest among the ECA countries at 20 percent. In 2005, Azerbaijan joined the Bologna Process, a European higher education reform initiative that promotes the comparability of degree systems, academic mobility, recognition, quality assurance, and a qualifications framework. However, Azerbaijan still lacks a quality assurance mechanism that can assure the credibility of Azeri degrees and diplomas, and its tertiary education system is not producing the skills needed to support a competitive 21st-century economy.



The Ministry of Finance initiated financing reform in 2010 by introducing a voucher system. The new system has encouraged universities to

improve quality in part through enhanced competition for students.

In 2013, a National Education Development Strategy was approved. Since the appointment of a new Minister of Education in April 2014 and the approval of the Strategy, the ministry has been initiating a number of reforms to effectively address the issues of content, relevance, quality, management, and equity at all levels of the education system.

The Action Plan for the National Education Development Strategy, approved in 2015, includes, among other measures, actions to improve the content of education based on competent, student-oriented, and innovative approaches at all levels; transform higher educational institutions into research and innovation centers; establish an education management system that is responsible for transparent and efficient education results; facilitate the country's transition to 12-year general secondary education; establish a system of quality assurance and data and reporting models; set up life-long education infrastructure; and identify new education financing systems.

Judicial Modernization

Azerbaijan is carrying out reforms aimed at the modernization of its judicial system in order to ensure rule of law and justice for its citizens. As part of this modernization, the Ministry of Justice (MOJ) intends to eliminate deficiencies in the normative framework, judicial infrastructure, and institutional capacity, and also address issues of corruption.

Agriculture Development

The agricultural sector is a key component of Azerbaijan's non-oil economy, with great potential for competing on internal and external markets. The sector also has a strong multiplier effect, stimulating growth and diversification in the non-farm rural economy. Although agriculture accounts for only 6 percent of GDP, it is a key employer, providing employment for about 39 percent of the workforce and generating two-fifths of household income in rural areas. After experiencing a major decline during the transition period, the sector began to recover in 1998 and currently presents significant business and trade opportunities.

The Government has launched a number of state programs to address some of the challenges in the agriculture sector. A recent Presidential Decree outlines some key reforms to be undertaken in the near future, and a new agricultural strategy (2015–2020) is

being prepared. The country's irrigation subsector development strategy was outlined in the State Program on Amelioration and Irrigation and also through a 2006 Presidential Decree on developing the water and irrigation sector.

Transport

Located strategically on the legendary Great Silk Route, Azerbaijan recognizes the importance of developing an efficient and affordable network of roads and infrastructure facilities capable of meeting the needs of its rapidly growing economy. The length and coverage of Azerbaijan's road network provide the basic capacity for interregional road transport and connectivity to neighboring countries. However, recent road surveys have demonstrated that a significant share of the total network, including about 80 percent of local roads, requires expensive rehabilitation and upgrading.

In 2014, transportation and storage accounted for about 5 percent of GDP. Road transport dominates, accounting for about 58 percent of freight and 88 percent of passenger transportation in 2014. Railways have a higher modal share in tons per kilometer terms and dominate in the flow of oil products.



During 2004–14, the Government invested more than US\$10 billion in the modernization and maintenance of road infrastructure, including major highways and urban infrastructure. Modernization of the railway infrastructure and rolling stock is being carried out under the State Program on the Development of the Railway System in Azerbaijan.

Environment/Solid Waste Management

One of the Government's key priorities is to reform the solid waste management sector. Recent efforts include the rehabilitation of oil polluted lakes in the greater Baku area.

Energy

Large government investments in energy generation, transmission, and distribution capacities have resulted in notable improvements in the quality of utility services. Energy sector development in Azerbaijan is guided by the Government's State Program for Development of the Fuel and Energy Sector in Azerbaijan for 2005–2015. The program determines the priority development targets for Azerbaijan's fuel and energy sector and establishes institutional actions for enhancing its operational effectiveness.

Azerbaijan has a power supply system capable of delivering electricity of acceptable quality to almost the entire population. The country has an installed capacity of about 6,800 megawatts (MW), with thermal power plants providing 90 percent of capacity and hydropower plants 10 percent. Energy demand had dropped substantially following a significant increase in tariffs in 2007, but since 2010 has been growing continuously again. Following significant investments in the power generation in recent years, the Government now plans to prioritize the renovation and expansion of the distribution networks.

Information and Communications Technology

One of the main targets of the “Azerbaijan 2020: Vision for Future” development concept is to double non-oil sector GDP in the coming 8–10 years by relying on and effectively embedding in the economy information and communications technologies (ICTs). Currently, ICT's share of the economy stands at 4.74 percent of GDP. During 2005–12, the ICT sector grew at a rate of 25–30 percent per annum, reflecting the overall rapid growth of the economy and benefiting from market liberalization.

Sector issues currently hindering Azerbaijan's broadband market development include: (i) weak regulatory independence and separation between the formulation of strategy and its implementation; (ii) regulatory bottlenecks at the wholesale level; (iii) a lack of a strategy and/or action plan to promote the efficient deployment of infrastructure by network operators; and (iv) the low level of infrastructure development in the regions. The availability of “digitally” skilled labor is also a challenge.

THE WORLD BANK PROGRAM IN AZERBAIJAN

Azerbaijan joined the World Bank in 1992 and the International Development Association (IDA) in 1995. The Bank has provided financing for 47 projects in different sectors totaling over US\$3.36 billion of IDA credits and grants and International Bank for Reconstruction and Development (IBRD) loans.

Currently, the transport sector dominates World Bank financing, amounting to 57 percent of net commitments. Water and sanitation make up 26 percent and public administration/law and justice another 7 percent. Other sectors amount to 10 percent of net commitments, including social development; agricultural and rural development; education; financial management; financial and private sector development; health, nutrition, and population; public sector governance; social protection; and urban development.

The Bank portfolio currently consists of 17 active projects whose total net commitment amount reaches US\$2.73 million. Six projects are financed on IDA terms and cover mainly non-infrastructure sectors, while the IBRD portfolio (11 projects) focuses mainly on infrastructure. The disbursement ratio as of March 16, 2015 was 30.

The World Bank Group's new Country Partnership Framework (CPF) will be discussed by the Board of Directors in June 2015 and will pursue the Bank's twin goals of reducing poverty and boosting shared prosperity. It will specifically focus on the need to improve public service delivery and connectivity, enhance the resilience of the economy to external shocks, and strengthen the country's economic competitiveness. The CPF will be based on the Systematic Country Diagnostics (SCD) for Azerbaijan, undertaken in FY14–15, and respond to priorities outlined in the country's long-term development strategy, Azerbaijan 2020: Vision for the Future. The SCD thus underpins the new CPF by defining the country's constraints and development priorities.

The Analytical and Advisory (AAA) program will focus on the potential for shared prosperity and equitable growth in resource-rich Azerbaijan. .

In addition to IDA/IBRD operations, the portfolio consists of three active Trust Fund projects in the amount of US\$7.27 million that support ongoing project preparation and implementation. These funds support Azerbaijan: Establishment of a Meta-Information System, the Swiss State Secretariat for Economic Affairs (SECO) Trust Fund for Azerbaijan

– Financial Sector Modernization, and the *Corporate and Public Sector Accountability Project*.

Financial and Private Sector

The World Bank is supporting the Government’s financial and private sector reform program through investment operations and policy advice.

Investment operations support capital market modernization and the implementation of government programs on consumer protection and financial literacy. The focus of the AAA services is on assessing the constraints to access to finance for non-oil enterprises in Azerbaijan and on providing technical assistance to the CBA for the introduction of a new operational risk management framework for commercial banks.

Social Protection and Social Insurance

The World Bank supports Azerbaijan’s social sector reforms through the *Social Protection Development Project*.

The project promotes an advanced legislative and institutional framework for social assistance, the modernization of business processes and employment services, the reorganization of the country’s disability services, and more modernized occupational standards with relevant training norms and programs that can help the country’s human resources to be more competitive.

Internally Displaced Persons (IDPs)

The World Bank supports IDPs in Azerbaijan through the *IDPs Living Standards and Livelihood Project*.

The project focuses on the improvement of both the physical and social infrastructure for IDPs and promotes the development of more economic opportunities to contribute to greater IDP economic self-reliance.

Health

The Bank supported the Government in building an effective health strategy through the *Health Sector Reform Project*.

With that project, the Government piloted a gradual but comprehensive reform of the health care system in five districts, and the successful implementation led to national acceptance and further implementation of the approach. Along with the construction of new medical facilities and the renovation of existing primary care facilities, the project supported a number of activities that helped to build and strengthen the professional capacity of medical personnel, improve undergraduate and postgraduate medical education, and train primary health care physicians and nurses in family medicine.

Environment/Solid Waste Management

The Bank supports this initiative via the ongoing *Integrated Solid Waste Management Project*

(ISWMP). The project, in the amount of a US\$76.6 million IBRD loan (including Additional Financing), focuses primarily on the Greater Baku area. After four years of implementation, the project has helped the Government to dramatically improve landfill management practices in the area, including at the main Balakhani landfill. The Bank supports the preparation of the National Solid Waste Management Strategy to address this challenge.

Education

The Bank supports the Government’s education reform program through investment operations and policy advice.

The ongoing *Second Education Sector Development Project* supports reforms in several key areas (preschool, curriculum, and teacher training, among others) that affect general education. A new *Higher Education Project* is under preparation, scheduled for delivery in FY16.

Judicial Modernization

The World Bank–financed *Judicial Services and Smart Infrastructure Project*

aims at improving access to, and the transparency and efficiency of, selected judicial services. The project is bringing judicial and other legal services to economically and socially vulnerable groups, such as IDPs, women, youth, and underserved populations in remote areas. New court infrastructure and electronic services introduced under the project set the standards for the entire system. The project also introduced user surveys to measure and upgrade services.

Agriculture Development

The Bank is engaged in strengthening the irrigation sector through the *Water Users Association Development Support Project*, (WUAP).

The irrigated area of around 1.4 million hectares is the crucial input for reliable crop production for 85 percent of the agricultural output in the country. Having piloted the rehabilitation of 55,000 hectares under the *Irrigation Distribution System and Management Improvement Project* (closed in 2010), the WUAP aims to improve the effectiveness and financial viability of irrigation water distribution and management through the capacity strengthening of Water Users Associations and the rehabilitation of on-farm irrigation infrastructure on another 85,000 hectares. Significant yield increases are expected for the next irrigation season.

The Bank supports the *Second Rural Investment Project Additional Financing (AzRIP-2 AF)*, a continuation of the AzRIP program that has been under implementation since 2005.

The cumulative record of AzRIP is one of significant improvement in rural communities’ access to infrastructure services,

improved mobility, and increased farmer incomes. Surveys have indicated that travel times to schools and markets have been reduced by 47 percent and 26 percent, respectively, as a result of the rehabilitation of rural roads. AzRIP provides support for community-led rural infrastructure upgrading, rural road rehabilitation working with clusters of communities, and community pilot livelihood initiatives.

The Agricultural Competitiveness Improvement Project aims to facilitate the access of producers to markets by strengthening sanitary and phytosanitary services, enhancing selected value chains, and providing financial services to agribusiness enterprises. The project promotes agribusiness/food processing through a line of credit to improve technologies, increase production, and upgrade and modernize plant protection and veterinary services.

Transport

The Bank supports the Government's programs with two highway projects and the *Rail, Trade and Transport Facilitation Project*, with total investments of more than US\$1.4 billion.

Energy

The World Bank-financed *Power Transmission Project* has helped the Government to strengthen electricity generation and transmission. A new Supervisory Control and Data Acquisition (SCADA) system upgraded the electricity dispatch operation in the country and provided technical assistance for improving the management systems of Azerenerji. The Bank is currently conducting a sector review on the development of alternative/renewable energy sources in Azerbaijan. Potential further areas of energy sector cooperation, including the modernization of electricity distribution networks, are also being discussed.

THE INTERNATIONAL FINANCE CORPORATION

Azerbaijan became a member of IFC in 1995. Since then, IFC has invested more than \$420 million in 75 projects in the financial services, infrastructure, and manufacturing sectors, and mobilized almost \$73 million from other lenders. About half of the total IFC investments in Azerbaijan have been channeled through the financial intermediaries, including banks and microfinance organizations, and strongly prioritized increasing access to finance for MSMEs and women entrepreneurs.

IFC has also implemented advisory projects aimed at creating conducive environment for the private sector growth in areas such as investment climate (one-stop shop for business registration; establishment of Portal of Business Permits and Licenses, an online portal for Azerbaijan's small and medium enterprises, and an Inspections Law), corporate governance, and financial sector risk management.

The State Oil Fund of the Republic of Azerbaijan (SOFAZ), Azerbaijan's sovereign wealth fund, has committed \$350 million to three funds managed by the IFC Asset Management Company: the IFC Global Infrastructure Fund, which invests alongside IFC in equity and equity-related investments in the infrastructure sector in emerging markets; the IFC Catalyst Fund, which invests in funds that provide growth capital to companies developing innovative ways to address climate change in emerging markets; and the IFC African, Latin American, and Caribbean Fund, which invests alongside IFC in equity and equity-related investments across a range of sectors in Sub-Saharan Africa, Latin America and the Caribbean.

IFC Strategy in Azerbaijan

IFC supports sustainable growth and the diversification of Azerbaijan's economy through investment and advisory services, with a focus on financial sector, infrastructure, agribusiness, manufacturing, and services. To address barriers to private sector investment in these and other areas, IFC implements advisory programs to increase resource efficiency, improve the business climate, and strengthen financial markets.

Financial and Private Sector

Working with nine financial intermediaries to support their on-lending activities in leasing, trade, housing, and MSME finance, IFC has significantly helped expand the MSME on-lending capacity of these financial institutions from about 50,000 loans in 2008 to over 300,000 in 2014.

Energy

IFC is providing Bank Respublika with a loan of US\$15 million to expand its lending to MSMEs involved in sustainable energy in Azerbaijan, helping create jobs and supporting economic development.

AZERBAIJAN: RAILWAY TRADE AND TRANSPORT FACILITATION PROJECT

Updated February 2015

Key Facts:

Approved: March 27, 2008

Effective: March 15, 2010

Closing: December 31, 2017

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	450	246.1	203.9
Government	136.7		
Additional Financing			
IBRD	220	0.6	219.4
Government			
Total Project Cost	806.7		

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	670	246.7	423.3

*as of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. The Government of Azerbaijan is implementing a comprehensive “State Program for the Development of Azerbaijan Railways” entailing institutional modernization and a list of priority investments. The main objectives of the program are: (i) satisfy the increasing demand from the population and the economy for railway transportation services; (ii) satisfy the security demands of the state; (iii) increase the transit potential of the country; (iv) improve the quality of railway services; and (v) support the social and economic development of the country by decreasing the costs of passengers and cargo transportation, all while progressively attaining financial self-sustainability for freight services.

The state program’s key priorities are: a) the institutional modernization of Azerbaijan Railways Closed Joint Stock Company (CJSC), and b) capital investments in rail infrastructure and rolling stock to allow it to maintain railway capacity and provide a sound basis for the future expansion of railway operations. The Bank’s Railway Trade and Transport Facilitation Project (RTTF) substantially supports both targets through numerous institutional and investment components.

The Project Development Objective is to improve railway services in Azerbaijan, as well as the competitiveness, financial sustainability, operating and cost efficiency, and capacity of the Azerbaijan Railways CJSC, particularly along the transport corridor toward Georgia (East-West corridor).

Results achieved:

- By a presidential decree of July 21, 2009, the Azerbaijan State Railway (ADDY) was transformed into the Azerbaijan Railways CJSC (ADY), later again transforming into a line of business structures, with departments for infrastructure, passenger services, freight services, and construction.
- The State Program for the Development of Azerbaijan Railways 2010–2014 was endorsed by the president on July 6, 2010.
- The International Financial Reporting Standards (IFRS)–based new chart of accounts and an accounting procedures manual have been prepared and the conversion of manually maintained accounts to IFRS has started. The revaluation of assets and the first international audit have been completed, enabling ADY to switch to the computerized IFRS accounting system by the end of 2015.
- ADY’s capacity to prevent and respond to oil spills has been substantially strengthened. The new Oil Spill Response Plan has been prepared and adopted, equipment for the response trains has been purchased under the project, and construction of a new administrative building for the emergency team has been completed.
- The power conversion contract is under way, with conversion works at the first rail section (136 kilometers) under completion and works progressing at another three sections. The signaling is under way, with detailed design recently approved and cabling works completed at the first section. Track renewal is also under way, with 330 kilometers of track replaced and two rail bridges rehabilitated. The contract for the supply of new freight locomotives has been signed. On June 27, 2013, the Bank approved project restructuring and US\$220 million in Additional Financing to cover a 100 percent share (except VAT) of cofinancing for power conversion and signaling contracts.

Key Partners: The Ministry of Transport, responsible for overall sector guidance, railway reform, and project oversight; and the Azerbaijan Railways Closed Joint Stock Company (ADY), responsible for the entire project implementation.

AZERBAIJAN: SECOND EDUCATION SECTOR DEVELOPMENT PROJECT

Updated March 2015

Key Facts:

Approved: April 21, 2008

Effective: December 1, 2008

Closing: March 31, 2016

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	25
Government	20.4
Total Project Cost	45.4
Parallel financing-UNICEF	1.5

World Bank Disbursement, million US Dollars:*

Financier	Financing	Disbursed	Undisbursed*
IDA Credit	25	20	4.06

* as of March 2015. Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Development Objectives are: i) to enhance the effectiveness of teaching and learning conditions in general education schools through curriculum reform; and ii) teacher in-service training.

Results achieved:

- The subject curricula for general secondary (grades 5–9) and complete secondary (grades 10–11) education levels have been developed, widely discussed in the media, including the Curriculum Portal (www.kurikulum.az), and approved by a decree of the Minister of Education. Implementation of new general secondary education curricula will start in the 2014–15 academic year for the 5th grade. Curriculum sensitization centers have been established in resource schools of 20 city/districts of the country. Around 800 members of these centers have been trained to provide local support to the implementation of the new curricula. Around 37,958 5th-grade subject teachers in the 2012–13 academic year were trained on the application of the general secondary education curriculum. Around 30,000 6th-grade teachers for the 2013–14 school year were trained. Also, more than 4,000 management staff in the general education system have undertaken curricula management training.
- The “Regulation of Content, Implementation of Further Education, and the Granting of a Relevant Education Certificate to Graduates of Domains of Further Education” was developed and approved by a decree of the Cabinet of Ministers. The new regulation envisages the creation of a competitive environment among state, nongovernmental, and private further education institutions for delivery of in-service teacher training. According to the new regulation, training primary school teachers on the implementation of the new curricula has begun through a competitive process and delivered to the schools. 34,915 primary school teachers have received such training.
- Effective school improvement methodologies, including a library component, have been launched in 11 pilot schools of the project (www.sm11.edu.az). Five out of 11 pilot schools have been renovated with the incorporation of the new design for libraries. Education departments in cities/districts have been instructed to implement the same design solutions in the remaining libraries of the 500 schools covered in the project. A catalogue reflecting the teaching/learning resources has been produced and distributed to all 500 schools so they can choose the resources they want to see in their libraries. Based on school requests from the catalogue, the project procured 452 titles of books with a total volume of 549,000 copies and supplied them to 500 school libraries.
- The project financed Azerbaijan’s participation in international student assessment programs such as the Program for International Student Assessment (PISA) 2009, the Trends in International Mathematics and Science Study (TIMSS) 2011, and Progress in International Reading Literacy (PIRLS) 2011. The project also financed three national student assessment studies in 2009, 2011, and 2013. School-based assessment standards have been updated, and new guidelines and teacher aids for implementation of school-based assessments have been approved.
- The Preschool Parenting Education Program and the School Readiness Program have been developed and implemented in the Khatai, Goygol, Guba, Shamakhi, Lankaran, and Fuzuli regions of Azerbaijan. The programs covered 1,319 parents and 687 students.
- New teacher recruitment procedures have been developed and introduced nationwide since 2010. The new procedures promote recruitment through electronic application and centralized computer-based exams.
- A system of strategic planning across the Ministry of Education and regional departments has been created. A new curriculum has been developed and the necessary preparation activities have been implemented for launching the “Education Management” master program at the State Pedagogic University. An accreditation department has been established at the Ministry of Education. The project organized a study visit to the accreditation, evaluation, and inspection agencies of the United Kingdom for the staff of the accreditation department.
- The new comprehensive website (www.edu.gov.az) of the Ministry of Education has been launched and is being maintained. The website was a winner of the “Milli Net” award as the best “Government Organization Website.” 10 trailers dedicated to education reforms have been developed and broadcast on a public TV channel. A study visit to relevant agencies in France has been organized for the staff of “Azerbaijan Teacher” newspaper, as well as for other education publicists.

Key Partners: Ministry of Education. **Key Development Partners:** United Nations Children’s Fund (UNICEF).

AZERBAIJAN: CAPITAL MARKETS MODERNIZATION PROJECT

Updated February 2015

Key Facts:

Approved: March 17, 2011

Effective: November 7, 2011

Closing: December 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	12.0
SECO	1.60
Government	2.20
Total Project Cost	15.80

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	12.0	6.4	5.6

* as of February 2015



Background. The capital market in Azerbaijan is underdeveloped, with equity and debt market capitalization of only 0.5 percent and 1.9 percent of non-oil GDP, respectively, at end-2010. Development of capital markets in the medium term is crucial to supporting the economic diversification of the non-oil sector. The operations of the main capital markets players and infrastructure (including the Baku Stock Exchange [BSE]) require further enhancements in their legal, regulatory, and institutional framework. Secondary trading of government and private corporate securities is small and illiquid. Only two companies have listed their shares on the BSE, and the most active trading surrounds shares of about 500 companies privatized in the mid-1990s representing the “unlisted securities market,” which is not regulated by the State Committee for Securities (SCS). To activate capital markets operations and mobilize additional investments from domestic and international markets, the legal and operational framework for Azerbaijan capital market needs to be enhanced in line with international practice and the needs of the local economy in private sector funds to finance growth.

The Project Development Objective is to increase the use of equity and corporate debt as financing and/or investment instruments through the adoption of an effective capital markets legal and regulatory framework and infrastructure.

The Project is providing financing for (i) streamlining and automating the capital markets infrastructure; (ii) updating and strengthening the legal and regulatory framework; (iii) stimulating supply; and (iv) building capacity at the SCS and developing public awareness activities.

Results achieved:

- State Program on the Development of the Securities Market in 2011–2020 was endorsed by the president on May 16, 2011.
- The new draft Law on the Securities Market and conforming amendments to the Civil Law were reviewed by the Government and the president and submitted to Parliament for approval in the middle of February 2015. This draft law is recognized as an important milestone in the State Program on the Development of the Securities Market of the Republic of Azerbaijan in 2011–2020.
- SCS has successfully completed all tender processes and concluded contracts for all of the envisioned activities under the project, with a nearly 100 percent commitment of project funds by February 2015. This includes (i) a large consultancy contract for providing comprehensive support to reforming and modernizing the Azeri capital market; and (ii) a large contract for the development of Azerbaijan Capital Markets Information Systems (CMIS) that was awarded recently to the Korean Stock Exchange and is to be launched soon.
- SCS created the Capital Markets Training Center and approved the National Education Program. In addition, the comprehensive Listing Advisory Program (LAP) for potential private sector issuers has been launched by the BSE to encourage new listings and the issuance of equity and debt securities by the private sector.

Key Partners: The State Committee for Securities is the implementing agency for the project.

Key Development Partners include the (a) Swiss State Secretariat for Economic Affairs (SECO), which cofinances components 2 and 3 of the Capital Markets Modernization Project in the amount of about US\$1.6 million; (b) European Union (EU), which is providing support for improving the capital markets legal framework under the project of Technical Assistance to the Commonwealth of Independent States Program (TACIS); (c) International Financial Corporation (IFC), which supported the drafting of the new Laws on Investment Funds and Covered Bonds and amendments to the Civil Code; and (d) International Monetary Fund (IMF), which has been supporting the development of a government securities market under a regional initiative funded by SECO.

AZERBAIJAN: REAL ESTATE REGISTRATION PROJECT

Updated February 2015

Key Facts:

Approved: May 21, 2007

Effective: September 17, 2007

Closing: December 30, 2014

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	30
Government of Azerbaijan	8.57
Total Project Cost	38.57



World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed
IBRD	30	20.82	9.18

*as of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to establish a reliable, transparent, and efficient real estate registration system supporting the real property markets and suitable systems for the management and use of state-owned immovable property.

The Project provides direct support to the public agency responsible for real property rights registration and cadastre, the State Committee for Property Issues (SCPI). Support is afforded through a large number of activities, including strategic and business planning, office renovations, hardware procurement, software development, registration procedures optimization, real property rights data production and conversion, real property valuation, training, and legal reform. One of the main outcomes of the project will be the establishment of a unified real property registration system in which rights to both private and public parties will be recorded. The system features the development of new software, the conversion of existing real property data, the production of 1.2 million hectares of digital cadastral map, and the institution of simpler and faster real property rights registration procedures. Since March 2014, new online services to notaries have been introduced nationwide, and 150 notaries have been connected to the SCPI database and can perform most registration functions online. To support the system's long-term development, the project includes the establishment of a training center and a program for improving private sector participation in real property registration services.

Results achieved:

- The project has contributed to a major institutional restructuring of SCPI.
- SCPI has formulated and adopted an IT strategy, a strategic plan, and annual business plans.
- Renovation works have been completed in 18 of SCPI's 21 regional property registration offices.
- The construction of SCPI's IT center is close to completion.
- SCPI offices have been connected through a wide area network and SCPI is developing new registration software.
- SCPI has converted 1.2 million hectares of the former State Land and Cartography Committee (SLCC) land reform data for inclusion in the new registration system.
- SCPI has completed a pilot mass valuation in Sumgait City; two more pilots are being contracted.
- SCPI organized the first examinations for cadastre engineers and contracted 65 private surveyors to amend or check REC records.
- A training center has been established and 13,919 training days have been organized.
- The average number of days required to register a transaction has been reduced from 30 to 12 days.
- The annual number of first and sales registrations increased from 89,000 in 2007 to 177,000 in 2013, and 256,357 transactions were registered in 2014.
- The number of information requests received by SCPI increased from 212,648 in 2007 to 606,561 in 2014.

Key Partners: The main counterpart is the State Committee for Property Issues (SCPI). The Notary Department of the Ministry of Justice is a project beneficiary through the online connection for notaries. The former State Land and Cartography Committee was a project implementing agency until February 2015, when it was abolished and all tasks related to cadastre and property valuation transferred fully to SCPI.

Key Development Partners include: a) SECO (Switzerland), which provides technical assistance and in the past, some equipment; b) German Development Bank (KfW) and the Government of the Korean Republic, which are undertaking survey and cadastral work to improve methodology; c) the U.S. Agency for International Development (USAID), which is providing advice and training in property valuation and mass appraisal techniques; and d) the Food and Agriculture Organization (FAO) of the United Nations.

AZERBAIJAN: CORPORATE AND PUBLIC SECTOR ACCOUNTABILITY PROJECT
Updated March 2015

Key Facts:

Approved: March 27, 2008

Effective: December 19, 2008

Closing: June 30, 2015

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA	11
PHRD grant	3
Government	8
SECO	2
Total Project Cost	24

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA	11	9.96	0.6

*as of March 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

	2008	2009	2000
Assets			
Operating cash	1,000	2,000	1,000
Accounts receivable	1,000	2,000	1,500
Inventories	1,000	1,000	1,500
Other current assets	1,000	2,000	3,000
Total current assets	4,000	7,000	11,500
Gross property, plant and equipment	10,000	13,000	13,000
Accumulated depreciation	(2,000)	(3,000)	(5,000)
Net property, plant and equipment	8,000	10,000	8,000
Other assets			
Goodwill	0	0	0
Discontinued operations	0	0	0
Total Assets	13,000	17,000	23,000
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	2,000	3,000	4,000
Accounts payable	1,000	2,000	2,500
Accrued liabilities	500	1,000	1,500
Total current liabilities	3,500	6,000	8,000
Long term debt			
Other long-term liabilities	0	0	0
Deferred income taxes	500	500	500
Total liabilities	4,000	6,500	8,500
Total shareholders' equity			
	7,000	7,500	8,500
Total liabilities and equity	13,000	17,000	23,000

Background. In Azerbaijan, a critical concern among the “cross-sectorial” issues to be addressed is the relatively weak legal and institutional framework for accounting and auditing, and the limited experience with international best practices of accounting, auditing, and financial management. Aside from the banking sector, the inherited Soviet-style accounting system still reflects more the needs of central planning than those of a modern market-driven economy.

The project interventions are anchored in the Government’s reform agenda that aims to align the Azeri accounting and auditing arrangements with international practices, bringing them closer to the needs of a market economy. These changes include developing a supportive and appropriate legislative and institutional environment, reforming accounting standards, and strengthening the accounting and auditing profession.

The Project Development Objective is to strengthen accountability and transparency in financial reporting for the public and corporate sectors in line with international best practices.

The key beneficiaries are the public interest entities, including state-owned enterprises, the Chamber of Accounts (the country’s supreme audit institution), the Ministry of Finance, and accounting and auditing professionals and stakeholders in Azerbaijan.

Results achieved:

Establishment of the Finance and Science Training Center (FSTC) has been completed and sustainable arrangements for accounting and audit training are in place. A local professional accounting qualification program has been developed. The program envisages teaching an integration of accounting and audit course at higher education universities and professional accounting qualification trainings. Currently the project is supporting (a) the implementation of a unified accounting and financial reporting IT system for budgetary organizations and (b) reform of accounting and audit education practices in the country. The key focus areas for the remaining project period are to ensure that: (1) deployment of a unified accounting and financial reporting IT system in all budgetary sites is completed successfully, and (2) the legal framework for the National Professional Accounting Qualification is in place and the Azeri qualification is accredited by the Association of Chartered Certified Accountants (ACCA).

Key counterparts: Ministry of Finance, Chambers of Accounts, state-owned enterprises.

Key Development Partner is SECO, which allocated grant funds for the Chamber of Accounts subcomponent of the project.

AZERBAIJAN: HIGHWAY II PROJECT
Updated February 2015

Key Facts:

Approved: January 17, 2006

Effective: August 9, 2006

Closing: December 31, 2014

Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	200.0
Government	64.8
1st Additional Financing:	
IBRD	300
Government	205.2
2nd Additional Financing:	
IBRD	113
IDA	62
Government	82.99
Total Project Cost	1027.99

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	200.0	200.0	0.0
1st Additional Financing:			
IBRD	300	282.7	17.3
2nd Additional Financing:			
IBRD	113	113	0.0
IDA	62	63.6	0.03

***as of February 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. Azerbaijan's geographical position makes it an important link between the Black and Caspian Seas and between Russia and Iran. Achieving Azerbaijan's potential as a transit economy is essential for the stimulation of economic growth, non-oil economic development, and the reduction of poverty. The improvement of the road network has been identified as one of the priorities for production diversification. Meanwhile, the poor condition of the transport infrastructure is hindering the growth of the non-oil economy. Prior to the oil boom, infrastructure investment rates in Azerbaijan were low, and the country faced an investment deficit. As a result, most infrastructure is beyond its useful lifespan and overall infrastructure quality and reliability are generally poor.

The Project Development Objective is to reduce road transport costs and improve access, transit, and road safety within Azerbaijan's East-West and North-South corridors, through upgrading some sections of the Alat-Masalli road of the Baku-Iran highway (M3) and rehabilitating the Baku Shamakhi (M4) road, the Kurdamir-Ujar Section of Baku-Gazakh Road (M2), the Tagiyev-Sahil Road (R6), and the Hajigabul-Bahramtapa road (M6).

The Project aims at the upgrading and rehabilitation of the above road sections and the provision of technical assistance, training, and goods to support the Ministry of Transport and National Road Administration (Azeryolservis JSC), including technical assistance to improve road maintenance and the project implementation capacity of Azeryolservis JSC.

Results achieved:

- Construction of 1A and 1B sections of the Alat-Masalli road, the Kurdamir-Ujar section of M2 highway, the M4 Baku-Shamakhi highway, the M6 Hajigabul-Bahramtapa road, and the M6 Kur river bridge has been completed.
- The vehicle operating cost for the M3 Alat-Yenikend and M4 Baku-Shamakhi highways has been reduced by 11 percent and 14 percent, respectively.
- Transit time from Baku to Shamakhi has been reduced from 150 to 100 minutes.
- The number of road accidents on the M3 Alat-Yenikend and M4 Baku-Shamakhi highways have been reduced by 24 percent.
- A comprehensive road database has been established.
- A Road Master Plan has been developed.
- The National Road Safety Strategy and Action Plan have been prepared and agreed with key government stakeholders.

Key Partners: The National Road Administration (Azeryolservis JSC), which is the implementing agency for the project and is in charge of management of implementation activities on a day-to-day basis; and the Ministry of Transport, which is responsible for the overall policy setting in the sector. **Key Development Partners** include the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), which finance other sections of the Azerbaijan transport corridors and with which the Bank team coordinates on project activities and sector issues.

AZERBAIJAN: HIGHWAY III PROJECT

Updated February 2015

Key Facts:

Approved: May 25, 2010

Effective: November 08, 2010

Closing: September 30, 2016

Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	171.6
IDA	70.0
Government	114.55
Total Project Cost	356.15

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	171.6	84.1	87.5
IDA	70.0	0.0	70.0

*as of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. Azerbaijan's geographical position makes it an important link between the Black and Caspian Seas and between Russia and Iran. Achieving Azerbaijan's potential as a transit economy is essential for the stimulation of economic growth, non-oil economic development, and the reduction of poverty. The improvement of the road network has been identified as one of the priorities for production diversification. Meanwhile, the poor condition of the transport infrastructure is hindering the growth of the non-oil economy. Prior to the oil boom, infrastructure investment rates in Azerbaijan were low and the country faced an investment deficit. As a result, most infrastructure is beyond its useful lifespan and overall infrastructure quality and reliability are generally poor.

The Project Development Objective: To contribute to more efficient and safer Baku-Shamakhi and Yenikend-Shorsulu roads and higher quality road services as part of the general network upgrading to motorway standard, and to improve the management of the nascent motorway network.

The Project finances (i) the upgrading of the M4 Baku-Shamakhi road to a four-lane motorway as well as the upgrading of the Yenikend-Shorsulu section of the M3 highway, (ii) institutional development activities on management, financing, operation, and maintenance of motorways in Azerbaijan, and (iii) technical assistance for supporting the project management capacity of the Project Implementation Unit (PIU).

Results achieved:

- The project has made progress in supporting the motorway maintenance reforms of the Road Administration through the development of a reform strategy and the establishment of the Motorway Management Unit.
- About 80 percent of works have been completed at Section 1, 44 percent at Section 2, and 6 percent at Section 3 of the M4 Baku-Shamakhi road. Progress on the construction of Sections 1C and 2 of the Alat-Masalli road is 11 and 4 percent, respectively. The road safety audits have been conducted for designing the project roads, which enabled safer road designs.

Key Partners: The National Road Administration (Azeryolservis JSC), which is the implementing agency for the project and is in charge of management of implementation activities on a day-to-day basis; and the Ministry of Transport, which is responsible for the overall policy setting in the sector.

Key Development Partners include ADB and EBRD, which finance other sections of the Azerbaijan transport corridors and with which the Bank team coordinates closely on project activities and sector issues.

AZERBAIJAN: NATIONAL WATER SUPPLY AND SANITATION PROJECT

Updated February 2015

Key Facts:

Approved: June 14, 2007

Effective: March 14, 2008

Closing: December 31, 2016

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	207
Government	80
Total Project Cost	287

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	207	155.01	52.5

*As of February 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. The Government is committed to using part of its oil wealth to address infrastructure deficits in the water and sanitation sector, and also to taking the policy and institutional measures needed to place the sector on a financially sustainable footing. Actions already taken include: (i) rehabilitation of the two main water treatment plants serving Baku's metropolitan area and reduction of technical losses from about 70 to 35 percent (the latter with support from the IDA-financed Greater Baku Water Supply Project); (ii) integration of the institutional structure for the sector, previously consisting of a multitude of small, ineffective, and independent utilities, into one main entity (AzerSu Joint Stock Company) and one smaller one serving the isolated Autonomous Republic of Nakhchivan area (the State Amelioration and Water Management Committee [SAWMC]); (iii) establishment of a Tariff Council to guide tariff policies in the utility sectors, with a view to promoting commercialization and financial sustainability; (iv) increase in average water tariffs in January 2007 by about 87 percent in order to achieve operations and maintenance cost recovery; (v) mandated introduction of International Financial Reporting Standards (IFRS) into all utilities as an essential tool to improve financial management and sustainability; (vi) initiation of several water supply and sanitation (WSS) projects in rayons (regions) outside of Baku's metropolitan area, most of them with external assistance; and (vii) cooperation with the Bank in carrying out analytical work on WSS and irrigation in order to develop a Water Sector Strategy.

The Project Development Objective is to improve the availability, quality, reliability, and sustainability of the water supply and sanitation services in Azerbaijan's regional (rayon) centers. One of the components deals with the preparation of the Greater Baku Regional Development Plan.

Results achieved:

- Preparatory work (feasibility and field studies, Environmental Impact Assessments [EIAs]) for all rayons has been completed and approved.
- The project has been restructured to reduce the scope of work from 22 rayons to four due to higher than anticipated bid prices. As a result, the project will cover the full rehabilitation of water supply (WS) and sanitation systems in Shamakhi, Gabala, Saatli, and Sabirabad rayons. The remaining rayons are financed from the state budget and the Islamic Development Bank (ISDB).
- The work at Shamakhi and Gabala water intakes has been completed. The work on the rehabilitation of networks and wastewater treatment plants in Shamakhi is under completion, while similar works for Gabala are progressing well.
- The work for the rehabilitation of water supply networks and construction of water transmission lines to Saatli and Sabirabad rayons are under completion.
- European water supply and wastewater standards have been introduced in Azerbaijan.
- The capacity-building program for the field-based operational and managerial staff of the water utilities has been prepared with more than 200 engineers trained.
- Hundreds of people from the local communities have secured temporary jobs and income.
- IFRS introduction in AzerSu is under completion and the GIS-based (geographic information system) asset management system is operational.
- The Greater Baku Regional Development Plan has been prepared, publically discussed, and disclosed and finally submitted for the prime minister's approval.

Key Partners: The AzerSu Open Joint Stock Company, the implementing agency for the project in the mainland of Azerbaijan; and the State Urban Planning and Architecture Committee (SCUPA), the implementing agency for the preparation of the Greater Baku Regional Development Plan.

AZERBAIJAN: SECOND NATIONAL WATER SUPPLY AND SANITATION PROJECT
Updated February 2015

Key Facts:

Approved: May 20, 2008

Effective: July 13, 2009

Closing: December 31, 2017

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	230	199.63	30.37
IDA	30	16	14
Government	150		
Additional Financing			
IBRD	150	0.375	149.6
Government	84		
Total Project Cost	644		



World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	380	200	180
IDA	30	16	14

*as of February 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Background. The Government is committed to using part of its oil wealth to address infrastructure deficits in the water and sanitation sector, and also to taking the policy and institutional measures needed to place the sector on a financially sustainable footing. Actions already taken include: (i) rehabilitation of the two main water treatment plants serving Baku's metropolitan area and reduction of technical losses from about 70 to 35 percent (the latter with support from the IDA-financed Greater Baku Water Supply Project); (ii) integration of the sector's institutional structure, previously consisting of a multitude of small, ineffective, and independent utilities, into one main entity (AzerSu Joint Stock Company) and one smaller one serving the isolated Autonomous Republic of Nakhchivan area (the State Amelioration and Water Management Committee [SAWMC]); (iii) establishment of a Tariff Council to guide tariff policies in the utility sectors, with a view to promoting commercialization and financial sustainability; (iv) increase in average water tariffs in January 2007 by about 87 percent in order to achieve operations and maintenance cost recovery; (v) mandated introduction of International Financial Reporting Standards (IFRS) into all utilities as an essential tool to improve financial management and sustainability; (vi) initiation of several water supply and sanitation (WSS) projects in rayons (regions) outside of Baku's metropolitan area, most of them with external assistance; and (vii) cooperation with the Bank in carrying out analytical work on WSS and irrigation in order to develop a Water Sector Strategy.

The Project Development Objective is to improve the quality and reliability of the water supply and expand water supply and sanitation services in selected regional (rayon) centers in Azerbaijan.

Results achieved:

- Construction and rehabilitation of water supply and sanitation systems in all eight rayons have been contracted and their implementation is rapidly advancing.
- The water supply and sanitation networks in Siyazan, Shabran, Aghsu, Ismayilli, and Lerik have been inaugurated, providing 150,000 beneficiaries with access to water and sanitation. On July 15, 2014, the Bank approved an Additional Financing in the amount of US\$150 million to scale up the number of beneficiaries under the existing contracts. European water supply and wastewater standards have been introduced in Azerbaijan.
- The capacity of local contractors involved in the rehabilitation of water supply and sanitation systems under the project has improved within the past few years.
- Hundreds of people from the local population have secured temporary jobs and income.

Key Partners: The Azerbaijan Amelioration & Water Management Open Joint Stock Company, responsible for investments in the eight rayons of the Azerbaijan mainland.

AZERBAIJAN: INTEGRATED SOLID WASTE MANAGEMENT PROJECT

Updated February 2015

Key Facts:

Approved: June 17, 2008

Effective: July 31, 2009

Closing: September 30, 2016

Financing from all cofinanciers, million US Dollars:

Financier	Financing	Disbursed	Undisbursed*
IBRD	29.5	29.5	0
Government	12		
Additional Financing			
IBRD	47.1	8.99	38.10
Government	8.5		
Total Project Cost	97.1		

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	76.6	38.49	38.10

*as of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. The Government of Azerbaijan has invited the World Bank to help implement the Environmental State Program (ESP), an ambitious response to the development challenges facing the Absheron Peninsula that surrounds the capital city of Baku, tackling critical environmental risks while liberating the land needed for the rapid economic and demographic growth of this essential urban area. Poorly managed solid waste is a highly visible environmental issue. The smoke from the Balakhani landfill, the main dumpsite for greater Baku, can be seen from far away. Outside the central city, informal dumpsites are numerous, especially in the new settlements where service coverage and quality are inadequate. Both Balakhani and the informal dumpsites pose health risks to residents. The rapid population growth across the peninsula exacerbates the solid waste problems. The primary challenges for solid waste management—and collection in particular—are: a) the lack of coverage, b) the poor quality of waste collection, and c) a lack of financial sustainability.

The Project Development Objective is to support: (i) improving solid waste disposal management; (ii) increasing waste collection coverage; and (iii) enhancing waste data information and financial management capacity in the Greater Baku area.

Results achieved:

- The landfill management practices in the Greater Baku area, including at the main Balakhani landfill, have been dramatically improved (i.e., waste is not burning, illegal waste pickers are now employed by the Government, waste is compacted and covered by soil, etc.) The Government has inaugurated the start of new recycling and incinerator plants.
- The new solid waste management agency for Greater Baku (Tamiz Shahar) has been established under the project and its capacity has been built based on a number of technical assistance activities supported by the project.
- Illegal waste pickers present at the Balakhani landfill have been formally employed by Tamiz Shahar.
- The Balakhani landfill has been fenced in and equipped with the necessary equipment to ensure proper waste management. Activities under the Additional Financing will enlarge the capacity of the existing Balakhani landfill, allowing for its future long-term use but also financing the preparation of the National Solid Waste Management Strategy. The Greater Baku Solid Waste Management Strategy and Policy Note and the National Solid Waste Management Assessment Report have been prepared under the project.
- More than 50 large illegal dump sites located at Absheron peninsula have been cleaned.
- The civil works contract for the rehabilitation and extension of the Balakhani landfill has been signed and the contractor has started preparatory activities on the site.
- The preparation of the National Solid Waste Management (SWM) Strategy as well as eight feasibility studies for landfill development in two geographical regions is under way.

Key Partners: Ministry of Economy and Industry (MEI), responsible for overall project implementation and day-to-day project management (including procurement and financial management); liaison with the Government, the Bank, and other donors; and the monitoring of project progress; “Tamiz Shahar” OJSC, the project’s beneficiary responsible for waste utilization in Greater Baku; and “Baku City Executive Power,” the project’s beneficiary responsible for waste collection and transportation in Greater Baku.

AZERBAIJAN: IDP LIVING STANDARDS AND LIVELIHOODS PROJECT
Updated February 2015

Key Facts:

Approved: October 27, 2011

Effective: February 9, 2012

Closing: June 30, 2016

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	50
Government	28.5
IDP Communities	tbd
Total Project Cost	78.5

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	50	31.2	18.8

*as of February 2015

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. In the period 1988–93, the Armenia-Azerbaijan Nagorno-Karabakh conflict led to a situation of protracted internal displacement, with 600,000 internally displaced persons (IDPs) residing across Azerbaijan. Large-scale and ongoing investments made under the Government’s resettlement program have contributed to resolving some of the problems of IDPs living in the harshest conditions. IDPs, however, remain disproportionately represented among the poor in Azerbaijan, representing 14 percent of this group, and many IDPs continue to endure substandard housing conditions. The self-reliance of IDPs is constrained by deficits in human, physical, natural, financial, and social assets. Addressing these deficits is essential if IDPs are to achieve self-sufficiency through independent and sustainable sources of livelihoods, access to quality infrastructure/services, and durable housing solutions. Thus, significant efforts are still needed to address these deficits and continue improvements in living conditions and livelihoods for the approximately 400,000 neediest IDPs scattered in small communities throughout the country.

The Project Development Objective is to improve living conditions and increase the economic self-reliance of the targeted IDPs.

The IDP Living Standards and Livelihoods Project is designed to achieve the following results: (i) about 200 demand-driven, small-scale microprojects to improve local services and infrastructure for IDPs, (ii) the full-scale renovation of 95 collective centers to improve the housing conditions of IDPs, (iii) the provision of vocational training for 1,300 young IDPs, including training, support, and resources to start small-scale businesses, (iv) support for the establishment of 200 community-based microenterprises, and (v) the extension of more than 1,500 microcredit loans.

Results achieved:

- 146 small-scale infrastructure and service delivery projects have been completed in IDP settlements, benefiting 98,313 residents.
 - Renovations have been completed at 46 collective centers, improving the housing conditions of 16,193 resident IDPs.
 - In communities where microprojects have been completed, 93 percent of beneficiaries rate the quality of that infrastructure or service as good compared to only 7 percent giving this rating beforehand.
 - 1,541 microcredit loans have been disbursed and 37 percent of recipients are women.
 - 511 community-based social institutions have been established to manage local-level investments and livelihood activities across all components of the project, increasing the participation, empowerment, and decision making of IDPs. Of the members of these groups, 63 percent are women.
 - 1,300 young people have completed vocational training and have received or will receive tools/grants to undertake employment and business opportunities.
- 200 community-based self-help groups have been established and trained to initiate small enterprises. Seed grants have been issued to the majority of these groups and they have commenced income-generating business activities as registered companies participating in the formal economy (as LLCs, limited liability companies).

Key Partners: Social Fund for the Development of IDPs, the implementing agency in charge of project implementation activities on a day-to-day basis; and the State Committee for Refugees and IDPs, responsible for the overall determination and implementation of state policy toward IDPs in Azerbaijan.

AZERBAIJAN: SECOND RURAL INVESTMENT PROJECT ADDITIONAL FINANCING (AzRIP-2 AF)
Updated February 2015

Key Facts:

Approved: July 5, 2014 **Effective:** November 5, 2014

Closing date: September 30, 2018

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	50.00
Government	30.00
Beneficiaries	6.47
Total Project Cost	86.47



World Bank Disbursements, million US Dollars*:

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	50	6.12	43.88

* As of February 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement

The Project Development Objective is to improve access to and the use of community-driven rural infrastructure and expand economic activities for rural households, to be achieved through: (i) financing demand-driven, community-identified priority rural infrastructure investments; (ii) strengthening the capacity of communities in partnership with municipalities and local support institutions to effectively identify, plan, and implement their development priorities; and (iii) building opportunities for rural employment and livelihood support services. AzRIP-2 AF is extending the delivery of community rural infrastructure microprojects to two new rayons (regions), while providing additional infrastructure support to existing communities; scaling up the livelihood pilots; and launching a pilot connector roads initiative, engaging with clusters of communities and enhancing rural road connectivity.

The Project is a multisector investment loan. Under AzRIP-2, 600 eligible communities in 56 rayons are targeted for community-driven rural infrastructure investment. The AF increases the total number of rayons serviced under the project to 58. Under the AF, it is estimated that a further 670 community projects will be supported, bringing the expected total project portfolio for AzRIP-2, including the AF, to 1,270 microprojects (including 26 livelihoods microprojects) and 10 connector road pilots.

It is estimated that 3.5 million community members will benefit from AzRIP-2 AF infrastructure and livelihood investments, representing coverage of approximately 75 percent of the rural population of Azerbaijan. A further 20,000 people will benefit from community training, cross visits, seminars, and conferences.

The AzRIP projects, under implementation since 2005, have garnered widespread recognition for delivering tangible results on the ground and improving people's lives through the upgrading of rural communities' access to infrastructure services, improved mobility, and increased farmer incomes. An evaluation of the evidence indicates that travel times to schools and markets have been reduced by 47 percent and 26 percent, respectively, as a result of the rehabilitation of rural roads. The rehabilitation of irrigation systems, reaching over 700,000 people under AzRIP to date, has increased average productivity by roughly 30 percent and added more than US\$1 million to the value of production in project areas. Primary school enrollment has increased by 25 percent since school rehabilitation. A keen emphasis on sustainable infrastructure, maintenance contracts, and accountability has helped ensure that over 90 percent of rehabilitated infrastructure is operational. The income of over 600,000 farmers has increased, and 150,000 rural poor now have access to safe water.

Current Status:

Under AzRIP-2, 486 community projects (CPs) have been completed, two CPs are under implementation, and 44 CPs are currently at the mobilization, training, and appraisal stages for their community projects. The sectoral composition of the active community projects is currently: roads – 57 percent; potable water – 12 percent; community renovation – 11 percent; drainage – 4 percent; health – 3 percent; irrigation – 3 percent; electricity – 2 percent; kindergarten renovation – 2 percent; schools – 1 percent; and 6 percent as yet unidentified.

Key Partners: State Service on Agricultural Projects and Credits under the Ministry of Agriculture; communities and local municipalities also play a key role both in contributing to investment costs and in the operation and maintenance of the rehabilitated infrastructure.

AZERBAIJAN: PUBLIC INVESTMENT CAPACITY BUILDING PROJECT (PICBP)

Updated March 2015

Key Dates:

Approved: June 24, 2009

Effective: November 3, 2009

Closing: December 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA	8
Government	2
Total Project Cost	10

World Bank Disbursement, million US Dollars:*

Financier	Financing	Disbursed	Undisbursed
IDA	8	7.84	0.54

* As of March 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. Based on Bank estimates, the total investments needed to develop infrastructure and other public services in Azerbaijan are around US\$1.1 billion per annum over the next 10 years. Implementing an investment program of this magnitude cannot succeed without substantial capacity improvements for the implementation and management of infrastructure projects and the resulting outcomes. The Bank has long been supporting the Government of Azerbaijan to improve its capacity to successfully pursue its development agenda. The PICBP will help to focus and consolidate efforts in building capacity in infrastructure sectors of the country.

The Project Development Objective is to improve the quality and efficiency of the preparation and implementation of investment projects in key priority sectors.

The PICBP will build broad stakeholder support through: (i) focusing on project management and technical capacity building in key priority areas, with attention to roads and the water supply and sanitation sectors; (ii) developing a capacity-building network of academic institutions (such as the State Economic University, University of Architecture and Construction, Public Administration Academy) and partners in the development community; and (iii) building capacity among government and state-owned entities to plan and implement their own capacity-building activities by working with senior management and human resources departments.

Results achieved:

- 50 different technical and thematic courses were organized for 1,941 staff of 48 government agencies and academic institutions.
- Training centers have been established at the University of Architecture and Construction and the State Economic University.
- Existing bachelor's and master's programs on water and wastewater management were modernized, and a new master's program on solid waste management has been launched at the University of Architecture and Construction.
- New master's programs on project management and human resource management have been established at the Public Administration Academy, and a certification course on project management, cofinanced by British Petroleum, was delivered at Khazar University.
- With support of the project, the Tamiz Shahar (the solid waste management agency for Greater Baku) has developed a Corporate Performance System to improve reporting and decision making.
- Technical assistance under the project has supported the efforts of the Ministry of Economic and Industry to improve the public investment management system.
- The project is supporting the Ministry of Economy and Industry in establishing a core training system for the vocational education center at Sumgait Chemical and Industrial Park.
- The project website is active and populated with information on upcoming and completed training courses and course materials. The website is also used for the tendering process and for reporting on project progress to the public.

Key Partners: The Ministry of Education and its Project Coordination Unit (PCU) is responsible for day-to-day implementation of the project; and the Project Steering Committee (PSC) under the Cabinet of Ministers is responsible for providing the project with strategic policy direction and coordination among the implementing and beneficiary agencies.

Project Beneficiaries: AzerSu OJSC, Azeryolservis OJSC, Azerbaijan Railways LTD, Azerenerji OJSC, Azerbaijan Amelioration and Water Management OJSC, Baku State University, Azerbaijan University of Architecture and Construction, Azerbaijan State Economic University, Academy of Public Administration under the President of Azerbaijan Republic, Ministry of Transport, Ministry of Education, Ministry of Justice of Azerbaijan Republic, Ministry of Labor and Social Protection of Population of Azerbaijan Republic, Ministry of Industry and Power of Azerbaijan Republic, Ministry of Agriculture of Azerbaijan Republic, Ministry of Ecology and National Recourses, Ministry of Finance, Ministry for Economic and Industry, State Committee on Standardization, Metrology and Patent of the Republic of Azerbaijan, State Committee on Land and Cartography of Azerbaijan Republic, Civil Service Commission under the President of the Republic of Azerbaijan, State Committee on State Property Management of Azerbaijan Republic, and State Securities Commission.

AZERBAIJAN: WATER USERS ASSOCIATION DEVELOPMENT SUPPORT PROJECT

Updated March 2015

Key Facts:

Approved: April 26, 2011

Effective: December 21, 2011

Closing: June 30, 2016

Financing from all cofinanciers, million US Dollars:*

Financier	Financing
IDA	76.8
IBRD	3.2
Government	34.3
Total Project Cost	114.30

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IDA	76.8	37.45	25.62
IBRD	3.2	0.08	3.19

* As of March 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. The agricultural sector is a key component of Azerbaijan's non-oil economy with the potential for competing on internal and external markets. Although the sector accounts for only 6 percent of GDP, it provides income and employment for about 40 percent of the country's workforce. In addition, the sector is seen as a priority by the Government of Azerbaijan in the context of food security and has been growing at an average annual rate of 6 percent in the past few years. The combination of favorable natural conditions and an established base for exports creates opportunities in the sector for growth, private sector investments, and trade opportunities. However, a number of bottlenecks need to be resolved in order to realize these opportunities. One of the most pressing constraints lies in the irrigation subsector. The Azerbaijan Amelioration and Irrigation Open Joint Stock Company (AIOJSC), with World Bank financing, successfully implemented the Irrigation Distribution System Management and Improvement Project (IDSMIP), which piloted an approach to the capacity building of Water Users Associations (WUAs) to take over the management and rehabilitation of the on-farm irrigation and drainage (I&D) systems. Under IDSMIP, 22 WUAs covering 52,000 hectares and benefiting 48,000 water users were rehabilitated, resulting in an average increase of 23 percent in yields, a return to actual irrigation of more than 5,000 hectares that had fallen out of irrigated cultivation, and shifts to higher-value crops such as fruits and vegetables. The Water Users Associations Development Support Project (WUAP) builds on this approach. Under AZ WUAP, an estimated 770,000 water users and farmers in 379 WUAs covering an irrigated area of 910,000 hectares in 27 rayons (regions) will benefit from the institutional capacity building of the project, and around 75,000 water users in 34 WUAs covering an irrigated area of 85,000 hectares in 15 rayons will have substantial benefits from rehabilitation.

The **Project Development Objective** of the WUAP is to improve the effectiveness and financial viability of on-farm irrigation water distribution and management in the project area. The project has three components: (i) Institutional Strengthening and Capacity Building, which will finance the institutional strengthening and capacity building of AIOJSC and the irrigation sector as a whole; (ii) On-Farm Irrigation and Drainage Rehabilitation, which will finance the rehabilitation of on-farm irrigation and drainage systems for eligible WUAs in selected rayons; and (iii) Project Management and Monitoring and Evaluation.

The project started implementation in early 2012 and aims to achieve the following results:

- Increase in agricultural productivity (about 15 percent) in at least 80 percent of the rehabilitated areas;
- Improved collection rates by rehabilitated WUAs of at least 80 percent, which meets 80 percent of the required level of on-farm system management, operation, and maintenance;
- Water distribution within 80 percent of the rehabilitated systems closely matches the crops' irrigation water demands; Collection rates by project WUAs of at least 65 percent, which meets 55 percent of the required level of management, operation, and maintenance (MOM) of the on-farm I&D system;
- Increased percentage of water users satisfied with WUA managerial and operational performance.

Current status: Rehabilitation of irrigation and drainage schemes progressing well, and currently work is ongoing or completed on 23 schemes of rehabilitated WUAs covering almost 65,000 hectares, or 76 percent of the target area of 85,000 hectares. Some 1,250 hectares have been brought back to irrigation under WUAP, and agricultural productivity in rehabilitated WUAs is around 15 percent higher compared to previous years.

AZERBAIJAN: SOCIAL PROTECTION DEVELOPMENT PROJECT

Updated February 2015

Key Facts:

Approved: May 27, 2008

Effective: March 17, 2009

Closing: August 31, 2015

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	26.7
Government	27.9
Total Project Cost	54.6

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA Credit	26.7**	18.6	0.5

* As of February 2015

** Original amount. Project restructuring canceled US\$ 5.8 mln.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Development Objective is to improve the delivery of labor market and social protection interventions through strengthened institutions, enhanced institutional and human resources capacity, and the improved targeting of social safety net programs.

Results achieved:

- Design, piloting, and implementation of new career guidance services have been completed. Professional orientation legislation has been reviewed and new proposals developed to introduce modern professional orientation services to youth. Career guidance website developed and launched.
- 43 modular training programs were prepared and published and are in use in existing training centers at the request of the Ministry of Labor and Social Protection of the Population (MLSP).
- 210 Occupational Standards Packages have been developed based on international experience and adopted-validated by companies and sector commissions; corresponding booklets (brochures) have been published. The standards are being publicly disseminated through the website (www.dios.az). In addition, 200 training standards have been prepared. Six Manuals on Improving Employment Services have been prepared, and 2,000 of each manual have been printed and distributed to the local employment services for application.
- All new programs designed and developed under the Employment Services component are being piloted in Ismailly region and Baku city. Two additional pilot regions, Ganja and Goychay, are also in preparation to implement the programs developed under the project.
- Practice Firm (virtual enterprise) operational model for Azerbaijan is currently being implemented; local partners (two universities) have been involved in this activity and their training centers have been equipped.
- Improvement of the technical infrastructure of the State Labor Inspectorates (SLIs) is completed (procurement of portable equipment and three inspection vehicles, as well as on-site trainings for inspectors of SLIs on the use of that equipment). New labor market recordkeeping, including labor contract electronic registry and electronic data sharing, has been established.
- Many activities have been successfully completed under the Social Assistance component, including the delivery of hardware and office equipment to the MLSP and its offices, the development of the ministry's interactive website, the introduction of videoconferencing facilities and corporate video call systems, and the delivery of office furniture to MLSP offices countrywide. The component work has enabled the MLSP to receive a high score (76 out of a maximum 100 points) on the government assessment of its readiness to introduce e-services. The development of guidelines for the monitoring and evaluation of social protection programs has been completed.

Key Partners: Ministry of Labor and Social Protection of the Population.

Key Development Partners: EU.

AZERBAIJAN: AGRICULTURAL COMPETITIVENESS IMPROVEMENT PROJECT

Updated March 2015

Key Facts:

Approved: September 30, 2013

Effective: August 27, 2014

Closing: December 30, 2018

Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	34.50
Government of Azerbaijan	18.75
Total Project Cost	53.25

World Bank Disbursements, million US Dollars:*

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	34.50	2.09	32.41

*** as of March 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background. Azerbaijan's agriculture sector faces weaknesses in the legal and regulatory system, infrastructure provision, and the low availability of credit. Increasing domestic demand for agricultural products provides significant opportunities for the private sector, including shifting production from subsistence crops to high-value products that would have a competitive advantage. Growth in agricultural exports and value-added processing and import substitution through investments in agriculture would contribute to stimulating the rural economy. Investments in the oil and gas sector are expected to require the significant procurement of agri-food products for the oil industry labor force, much of which is currently being imported. This creates a unique opportunity to stimulate domestic production of high-quality and safe food products. Access to these market opportunities, however, would require the significant modernization of the sector, which needs to produce higher value-added and safe products in order to meet the higher standards required to compete in the more demanding markets. The current lack of improved seed varieties and more productive livestock breeds, combined with outdated processing technologies, limits product quality and, in turn, restricts the ability of agri-food processors to access potentially lucrative markets. Cooperation between producers and agri-food processors is not sufficiently developed or systematically implemented, and this further restricts the development of efficient agri-food production value chains.

The Project Development Objective is to facilitate the access of agricultural producers to markets by strengthening sanitary and phytosanitary services, enhancing selected value chains, and providing financial services to agribusiness enterprises. The project would further promote agribusiness/food processing through providing access to finance to improve their technologies and increase production and upgrading and modernizing plant protection and veterinary services. The project would also facilitate the development of selected high-value chains through a series of activities and interventions targeted at key constraints in the functioning of the marketing chains of agricultural commodities. Finally, the project will support a focused food safety capacity-building program for both the public and private sectors.

The project will build on the achievements of a previous agricultural project (ADCP-II, closed in February 2012), which was successful in meeting its objectives. In particular, ADCP-II helped farmers to better market their production. Production marketed for cash by participating farmers has increased by 27 percent, while their income from agricultural activities has increased by 30 percent.

Current status:

The project has been effective since August 27, 2014. Since effectiveness, the project management unit (PMU) has made reasonable progress with implementation and a number of necessary start-up actions are underway.

Expected results:

Achievement of the development objectives will be assessed through the increase in marketed output in at least 60 percent of the targeted value chains and agribusinesses funded by the project grant facility and credit line.

Key Partners: Ministry of Agriculture, State Agency of Agricultural Credits, State Veterinary Services, and State Phytosanitary and Control Services.

AZERBAIJAN: Judicial Services and Smart Infrastructure Project
Updated March 2015

Key Facts:

Approved: July 9, 2014
Effective: October 31, 2014
Closing: December 31, 2018

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	100
Government	100
Total Project Cost	200

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD	100	10.52	89.48

*** as of March 2015**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Background: The Judicial Services and Smart Infrastructure Project (JSSIP) is designed to sustain Azerbaijan’s continuing justice sector modernization by expanding access, strengthening due process, and ensuring transparency in the delivery of key justice and legal services, notably through expanding e-justice services, strengthening management systems, and institutionalizing public feedback. Building on the Judicial Modernization Project (JMP) achievements, the JSSIP seeks to focus improvements across three broad areas: service delivery; sector efficiency, capacity, and results monitoring; and the expansion of smart infrastructure.

The Project Development Objective is to improve the access, transparency, and efficiency of the delivery of selected justice services.

The Project beneficiaries include economically and socially vulnerable groups, notably IDPs, refugees, women, youth, and unserved populations in remote areas. Households stand to benefit from streamlined processing and service delivery from the courts and the Ministry of Justice (MOJ). The private sector will be the main beneficiary of e-notary and business e-registry services. Other direct project beneficiaries are the officials and other staff of the MoJ, the Supreme Court, all lower and appellate courts, and the Justice Academy. The project will also benefit external entities key to a well-functioning justice sector, including the media, civil society organizations, advocates, and the Bar Association.

Key Partners: Ministry of Justice

Key Development Partners: United Nations Children Fund (UNICEF), European Commission

AZERBAIJAN: IFC SUPPORTS ACCESSBANK TO INCREASE FUNDING FOR MICRO AND SMALL BUSINESSES

Key Dates:

Approved: December 3, 2012

Signed: December 12, 2012

IFC financing (US dollars):

<i>Financing Type</i>	<i>Amount</i>	<i>Fiscal Year (starts July 1)</i>
Loan	15 million	2013



Challenge

A lack of access to finance often limits the growth of smaller businesses, especially those engaged in agriculture. Small-scale entrepreneurs are also often underserved by commercial banks.

Project Development Objective

The International Finance Corporation's (IFC) US\$15 million loan to Azerbaijan's AccessBank is designed to increase funding for micro and small businesses in Azerbaijan, supporting job creation and economic development. Through its extensive branch network, the bank will provide much-needed financing, particularly in rural areas, thereby reducing poverty.

AccessBank is the country's largest micro-lender, providing financial services to the poor and helping expand the financial sector in Azerbaijan. The bank currently has more than 120,000 outstanding loans and commands up to 30 percent of the micro loans market.

IFC, acting with other international financial institutions, promoted the establishment of AccessBank in 2002. Since then, IFC has continuously supported the bank by participating in two capital increases, providing long-term funding for micro, small, and medium-sized enterprises (MSMEs). IFC committed two separate credit lines in March 2009 and December 2012 to expand the bank's lending program to MSMEs. IFC currently holds a 20 percent equity stake in AccessBank.

Key Expected Results:

The project is expected to:

- Support the growth of the bank's MSME portfolio and increase access to finance for MSMEs;
- Stimulate growth in the non-oil sector and make a positive impact on employment generation and economic development in Azerbaijan;
- Potentially create positive spillover in the banking sector by supporting a strong partner with good risk management and corporate governance practices.

World Bank Group / IFC Advisory Services Projects in Azerbaijan

WORLD BANK GROUP TRADE AND COMPETITIVENESS

Azerbaijan Investment Climate Advisory Services (2013–15)

Donor partner: the Swiss State Secretariat for Economic Affairs (SECO)

The Challenge

Azerbaijan is a resource-rich country that has used its resource wealth well over the past decade. Natural resource-based economic growth has been driving Azerbaijan's progress. However, recent developments suggest that new sources of shared growth will have to be tapped going forward. Bringing the private sector to center stage as the main driver of growth will help accelerate and sustain progress. To ensure balanced development and international competitiveness and generate more employment opportunities, the country needs to simplify its business environment for businesses outside the oil and gas sector.

The World Bank Group Approach

The Azerbaijan Investment Climate project aims to support the diversification of Azerbaijan's economy and improve the country's business climate by helping the Government implement policy reforms in business permits and inspections, strengthening the competitiveness of the agribusiness sector (which accounts for nearly half of the country's employment) through analysis and the introduction of regulatory reforms, and extending policy reforms to tax administration.

The IFC Azerbaijan Investment Climate Project is implemented by the World Bank Group Trade and Competitiveness Global Practice.

Expected Results

- Promote a fair and competitive business environment via increased transparency and reduced investor risk and cost of doing business;
- Boost agribusiness competitiveness;
- Increase tax transparency and protect the Azerbaijani tax base while maintaining a predictable investment climate for local and foreign investors, leading to increased investments.

WORLD BANK GROUP FINANCE AND MARKETS

Azerbaijan-Central Asia Financial Infrastructure Project

(Phase 1: 2009–12, Phase 2: 2012–15)

Donor partner: the Swiss State Secretariat for Economic Affairs (SECO)

The Challenge

Access to finance is one of the foundations of private sector growth. As such, supporting the development of the financial sector has been a priority for the World Bank Group in Azerbaijan, the Kyrgyz Republic, Tajikistan, and Uzbekistan. Financial markets in the region need further strengthening in order to achieve stability and broaden access to finance. Many countries lack the cornerstones of financial infrastructure: sound credit bureaus and collateral registries. The region also lacks local financial staff trained and experienced in risk management.

The World Bank Group Approach

The project aims to expand secured access to finance for individual consumers and micro, small, and medium-sized enterprises (MSMEs) by improving the financial infrastructure in the four project countries.

The project will continue with the development of credit bureaus and expand the collateral registries component through a programmatic approach. It will focus on:

- Improving legislation relevant to credit information sharing and secured transaction practices;
- Building capacity within credit bureaus/public registries and movable collateral registries;
- Strengthening the capacity of financial intermediaries by providing new tools related to credit reporting and secured transactions and improving risk management practices at local financial institutions; and
- Raising public awareness and promoting a financial literacy program.

The initiative is part of the World Bank Group's Finance and Markets Global Practice.

Expected results

The project aims to establish sustainable financial infrastructure systems in the four project countries. It aims to facilitate an additional US\$373 million in financing to 641,400 individual consumers and MSMEs over five years, including US\$58.6 million to 117,200 individual consumers and MSMEs in Azerbaijan.

IFC Advisory Services Projects in Azerbaijan

Bank Advisory Program in Europe and Central Asia (2009–15)

Donor partners: the Development Bank of Austria and the Swiss State Secretariat for Economic Affairs

The Challenge

The Europe and Central Asia region was among the hardest hit by the global financial crisis, and many financial institutions remain vulnerable to further instability and lack the confidence to restart lending to the SME sector in particular. This is a byproduct of insufficient knowledge of best-practice SME lending skills and a limited understanding of how to manage the risk and high rates of nonperforming loans (NPLs).

The IFC Approach

The program provides in-depth advice to help financial institutions strengthen their NPL and risk management capabilities and increase lending to SMEs. It also supports the development of a market for distressed assets, increases awareness of best international practices in risk and NPL management, and supports the development of SME banking with a focus on gender finance.

Results to Date

The project has helped clients in Europe and Central Asia release more than US\$51 million for new lending and has facilitated a further US\$17 million in new financing to clients.

Corporate Governance Program in Europe and Central Asia (2012–15)

Donor partners: the Swiss State Secretariat for Economic Affairs (SECO) and the Development Bank of Austria (OeEB).

The Challenge

Good corporate governance helps companies and financial institutions to enhance their sustainability, access capital, and improve their performance. Yet many companies and financial institutions in Europe and Central Asia lack the knowledge and experience necessary to strengthen their governance practices so as to realize the real benefits such practices can bring. Local consultants and institutions also lack the skills needed to help businesses improve their corporate governance. In addition, the corporate governance framework in many countries is in need of further enhancement.

The IFC Approach

The program provides in-depth advice to companies and financial institutions on implementing good corporate governance practices, strengthens the capacity of local partner institutions to deliver director-focused training and corporate governance services, and contributes advice on the corporate governance aspects of laws, codes, regulations, and other tools.

Expected Results

The program aims to help its partners in Europe and Central Asia raise US\$180,000 in sales revenue through corporate governance work, in order to improve the performance of 32 companies through corporate governance improvements and help 24 companies access financing totaling US\$100 million.

Resource Efficiency Program in Europe and Central Asia (2010–15)

Donor partner: the Ministry of Finance of Austria

The Challenge

The efficient use of energy, raw materials, and water along a company's value chain not only helps conserve resources and reduce waste, pollution, and greenhouse gas emissions, but also reduces operating costs. Yet many firms in Europe and Central Asia remain unaware of the potential cost savings and environmental benefits. As a result, firms are reluctant to invest the upfront costs needed to identify and take advantage of resource-efficiency opportunities.

The IFC Approach

The program works at the firm and sector levels to stimulate investment in resource-efficient technologies and best practices, improve management and operational practices across industries, raise awareness among policy makers and financial institutions, and drive market transformation through sector studies, such as benchmarking and assessment tools.

Expected Results

The program aims to facilitate investment of US\$90 million and reduce carbon dioxide emissions by 120,000 tons of CO₂ annually in Europe and Central Asia.

Agribusiness Standards Advisory Program in Eastern Europe and Central Asia (2013–16)

Donor partner: The Ministry of Finance of Austria

The Challenge

The agribusiness industry is a vital contributor to the economies of Europe and Central Asia. However, inadequate food safety standards keep the region's agribusiness industry from advancing, while food companies are shut out of the modern food value chains, potentially aggravating global food security.

The IFC Approach

The IFC program assists local companies in applying food safety standards throughout the agribusiness value chain while also strengthening the capacity of local consultants. Improved standards will help agribusiness firms meet regional and export market requirements while building a foundation to mobilize investments and help the agribusiness industry realize its full potential.

Expected Results

The IFC Program is expected to:

- increase the number of companies with food safety management systems in place, boosting their competitiveness, investment attractiveness, and export opportunities;
- facilitate an increase in domestic and export sales by client companies;
- facilitate investments as a result of improved food safety management;
- build capacity among local consultants and firms; and
- create a demonstration effect for how to do business more sustainably, across the region and globally.