

# World Bank –Azerbaijan Partnership Program Snapshot



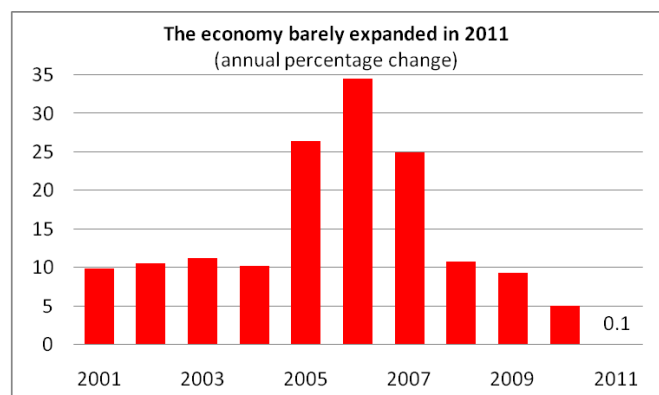
April 2012



## RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

### Overall Growth

In 2011, Azerbaijan's economy barely grew even though the non-oil sector expanded by 9.4 percent. The sharp slowdown in growth in 2011 was due to a nearly 11 percent fall in oil production because of technical maintenance work in the main oil fields Azeri-Chirag-Guneshli that had earlier supported double-digit growth. As maintenance work is completed, oil production is likely to recover to earlier levels.



Domestic demand boosted by high public spending led to strong growth rates in construction and domestic trade. Buoyant public investment, last year buttressed by a supplementary budget amid higher than budgeted oil prices, supported the expansion in construction, which expanded by about 20 percent. Agriculture, the largest employer in the country, and a significant potential source of exports rebounded strongly after damage due to floods in 2010.

	2010	2011
<b>Gross Domestic Product</b>	5	0.1
Oil GDP	7.9	-9.3
Non-Oil GDP	1.8	9.4
<b>Industry</b>	2.1	-8.2
Mining and Quarrying	1.4	-10.2
Manufacturing	6.8	7.4
Electricity, Gas and Water	6.2	11.1
<b>Agriculture</b>	-2.2	5.8
<b>Construction</b>	20.3	20.0
<b>Services</b>	7.2	6.5
Trade	8.8	10.2
Transportation	4.3	-0.8
Hotels and Restaurants	16.3	22.6
Communication	29.7	11.8
Social and Other Services	3.9	5.7
<b>Net Taxes</b>	6.0	8.2

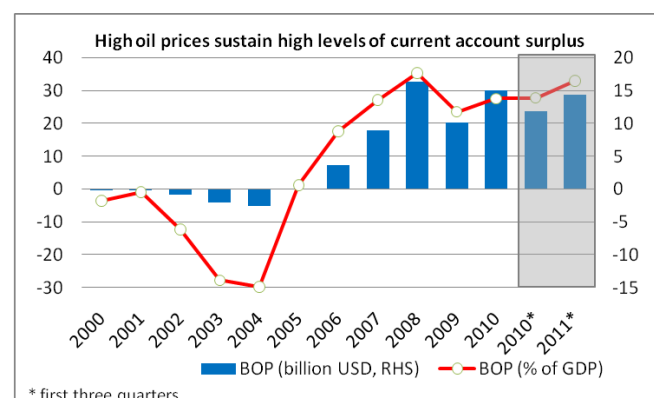
Source: AzSTAT.

Even as the potential of the oil sector has been reached, gas production is expected to grow. However, the new natural gas fields are unlikely to replace the rates of growth seen in the oil sector. Consequently, to achieve continued strong

improvements in economic activity and to provide well-paying jobs for the population, Azerbaijan will need to find new sustainable sources of export-led growth in the non-oil sector.

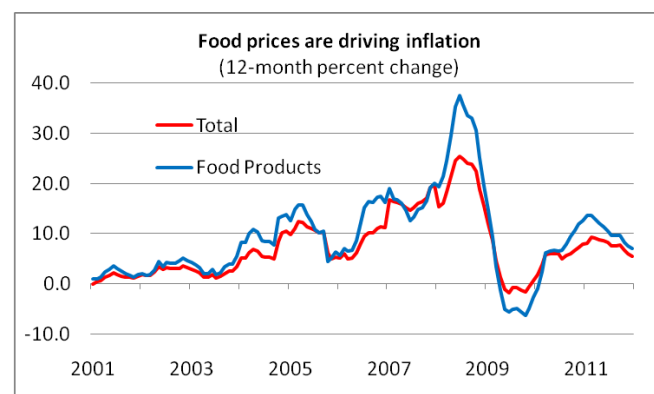
### External Sector

Higher oil prices have boosted the current account surplus although the non-oil trade balance continues to deteriorate. Despite the fragile global recovery, oil prices have been rising steadily, with the weighted average crude price up from US\$79 in 2010 to US\$104 in 2011. This increase helped widen Azerbaijan's current account surplus from 29 percent of GDP in 2010 to a likely 33 percent in 2011. Fueled by stronger government spending, the non-oil current account deficit deteriorated, by contrast. The non-oil current account deficit rose from 18 percent in 2010 as a whole to 26.7 percent in 2011.

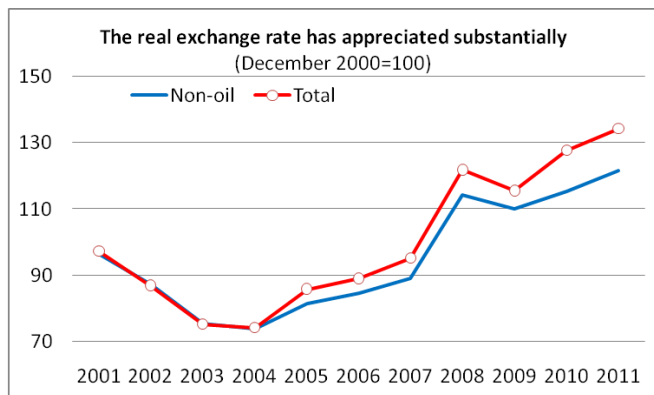


### Prices and Exchange rate

Twelve-month inflation eased to 7.9 percent by December because of slower increases in food and commodity prices. Given the large weight of food prices in the consumer basket, overall inflation has tracked food inflation for the last decade. The recent decline is in contrast with the surge in 12-month consumer prices to 22 percent in early 2008 on the back of food prices that rose nearly 40 percent year-on-year.



**Rising demand for non-tradable goods and services have led to price increases relative to tradables leading to real exchange rate appreciation.** With recent public spending increases and recovery in credit growth, real appreciation pressures are likely to continue. Real exchange appreciation will have to be offset by productivity growth if the government's objective of improving competitiveness to achieve non-oil export led growth is to be achieved.



## Financial Sector

**Loan to deposit ratio (LDR) was slightly over 100 percent in 2011, a significant improvement over the corresponding figure from 2010.** The banking sector is dominated by the publicly-owned International Bank of Azerbaijan (IBA) which holds almost 40 percent of total banking assets. The concentration and quality of its assets remains a serious concern, as are its continued receipt of public funding and lagging loan loss provisions.

Main Banking Indicators, 2005-2011 (In thousands of manats, unless otherwise specified)				
	2008	2009	2010	2011
Assets	10,273.5	11,665.2	13,291.0	14,259.2
percent of GDP	27.0	33.7	32.0	28.5
Loans	7,163.2	8,407.5	9,163.4	9,950.3
percent of GDP	18.8	24.3	22.0	19.9
Deposits	6,460.0	6,379.0	7,626.0	9,447.0
percent of GDP	17.0	18.4	18.3	18.9

Sources: AzSTAT and CBAR

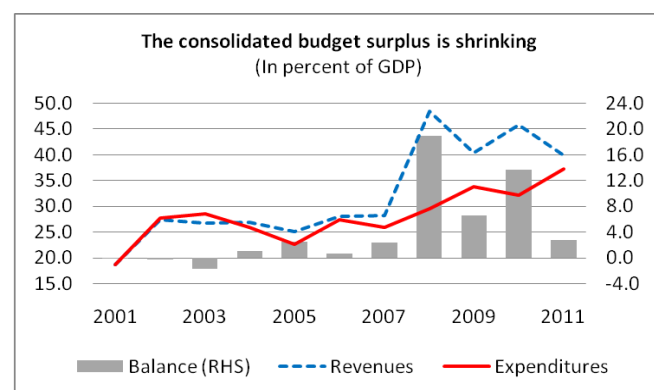
**Nonperforming loans (NPLs) have increased modestly as banks have recognized problem loans previously restructured on sub-market terms.** NPLs rose to 6.4 percent of total loans by the end of 2011 from 5.4 percent a year earlier. NPLs could further increase in near-term owing to a slow growth rate and the migration of overdue loans to higher risk categories.

**Overall loan loss provisions increased 40 percent in 2011 from 2009.** Provisions remain low by historical trends and against regional comparators and provide only

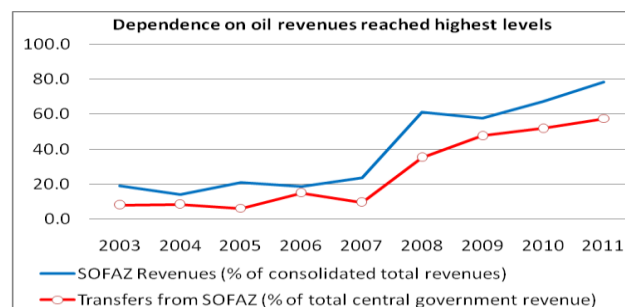
about 60 percent coverage for NPLs. Given the inherent structural weaknesses in the legal framework supporting creditors, foreclosure is extremely difficult and protracted for banks, thus limiting the scope for asset recovery. Therefore, in the interim (or until such actions are taken), profitability and thus capital are likely to remain under pressure.

## Fiscal Developments

**A surge in spending resulted in a much smaller consolidated budget surplus in 2011.** The surplus narrowed to 2.7 percent of GDP in 2011 from 14 percent in 2010. The narrower central government budget, that excludes the revenues of the State Oil Fund (SOFAZ) and the extra-budgetary pension fund, on the other hand, shifted from a small deficit to a surplus of less than 1 percent of GDP in 2011.



**Revenues and expenditures are mainly driven by oil-related receipts.** Consolidated government revenues fell to 40 percent of GDP in 2011, the lowest in the last four years. (In nominal terms, revenues were at the highest level ever.) Transfers from SOFAZ to the central government budget were more than 57 percent in 2011.

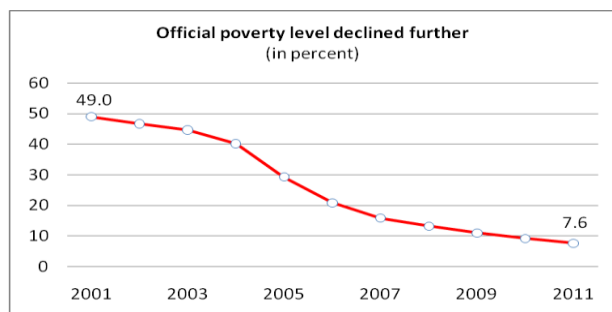


**Expenditures continued to grow in 2011 on the back of high public investment spending.** Spending rose to 37.2 percent of GDP in 2011 from 33 percent in 2010. Government investment spending amounted to 14 percent of GDP, more than one-third of consolidated outlays. Within the overall public investment, infrastructure projects account for one-fourth and projects in tourism and culture for one-tenth. The

authorities are focused on large projects to sustain economic growth.

## Poverty Developments

**Strong economic activity and rising government social spending have reduced poverty markedly.** The share of those living under the poverty line fell from 50 percent in 2001 to 7.6 percent in 2011, according to official estimates. Higher minimum wage rates over the last decade are likely to have contributed to poverty reduction. Minimum wages were last increased by 10 percent in January 2012 to the equivalent of US\$118 a month. Social transfers, including a well targeted social assistance program, have also contributed to declining poverty.



**Official data also indicates a drop in the unemployment rate.** The unemployment rate has declined steadily, falling to 4.2 percent by the end of 2011. Labor force participation rates have also fallen to about 78 percent in 2011. In order to maintain high rates of employment, job creation will continue to be an active goal for economic policy.

**Azerbaijan has taken a notable step in reforming its social safety nets by introducing a system of Targeted Social Assistance (TSA) programs in 2006.** During the first two years of the program, this well-defined, accessible and relatively generous TSA program covered more than 163,409 families (as of 2008). Due to the declining poverty level in the country the number of beneficiary households has declined during 2009-2011 and the latest data indicates that, by the end of 2011, the program covered 120,476 families, which is 6 percent of all households in the country. Based on an assessment of 2008 Living Standards Measurement Survey results, the TSA program is among the best performing in terms of targeting accuracy and helping people to cope with poverty and shocks. TSA benefits support more than half of the income of the poorest 20 percent of the population. Information on benefit payments, as well as on all households receiving targeted social assistance and on those that have applied for it, is fully computerized and records are updated in real time.

**The Government of Azerbaijan is progressing with further reforms of the TSA.** It intends to advance beyond the ‘first generation’ of social safety net reforms (i.e. introduction of TSA) to the ‘second generation’ that will aim at developing a broader set of social services that could address the root causes of poverty, and link these services to the provision of the TSA to ensure that poor and vulnerable households eventually graduate from poverty and dependency upon social transfers.

## Social Insurance and Social Protection

**Azerbaijan’s pension system has gone through significant changes since 2005.** The changes introduced by two Laws – on Labor Pensions and on State Pensions – included streamlining of benefits, and introducing a clear linkage between benefits and contributions. All business processes are integrated through a comprehensive fully automated Management Information System (MIS), which is recognized as a best practice in the region. Records of all 1.3 million pensioners are computerized, and social insurance contributions of 1.97 million people are recorded in the Central Automated Registry.

**To continue the reforms, the Government hopes to address emerging concerns about long-term fiscal sustainability of the pension system.** A comprehensive analysis of the current pension system, including actuarial analysis of its affordability and fiscal sustainability and an analysis of individual welfare consequences for different types of its participants (formal sector employees, farmers, etc.) is underway. Options are being formulated for the long-term development of the pension system based on a thorough assessment of the economic and institutional preconditions for the broadening of the pension system.

**The World Bank supports Azerbaijan’s social sector reforms through the *Social Protection Development Project*,** which aims at setting up an advanced legislative and institutional framework including the introduction of a Management Information System, modernization of business processes and employment services, and reorganization of the country’s disability services, modern occupational standards with relevant training standards and programs that can help the country’s human resources to be more competitive. Improved access and better quality public employment services would help new entrants to the labor market and enhance job mobility.

## Internally Displaced Persons (IDPs)

**Seven percent of Azerbaijan’s population (approximately 595,000 people) is displaced, making it one of the highest concentrations of IDPs in the**

**world.** Most of these IDPs were forcibly displaced in 1988-94 during the conflict between Armenia and Azerbaijan over the Nagorno-Karabakh region of Azerbaijan. 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 rates and higher work inactivity rates than the non-displaced.

**The Government of Azerbaijan is committed to promoting economic opportunities and livelihoods for IDPs, which is critical for their welfare and sustainable development.** A comprehensive and well-resourced set of assistance programs funded by the Government and the donor community aims at protecting and supporting IDPs. At present, state subsidies remain the main source of support for the majority of displaced people. A special program is funded by the State Oil Fund of Azerbaijan to improve their living conditions and housing.

**The World Bank supports the IDPs in Azerbaijan through the *IDPs Living Standards and Livelihood Project*.** The project focuses on the improvement of both physical and social infrastructure of this most vulnerable group of the country's population and allows for development of more economic opportunities for them.

## Health

**Azerbaijan's key health indicators have improved slowly but more progress is needed if the health Millennium Development Goal (MDG) targets are to be met.** Under-five mortality rates declined from 23.1 per 1,000 live births in 2001 to 14.2 in 2010. The UN Inter-agency Group for Child Mortality estimation also shows a decline in infant mortality, from 46 per 1,000 live births in 2005 to 39 in 2010. The maternal mortality rate in 2010 was 15.7 deaths per 100,000 births compared with 37.6 in 2000, although this is still well above the MDG target of 9.4 set for 2015.

**The Government has begun a process to optimize its health care delivery system.** It includes rationalization of public health facilities and healthcare staff, developing treatment protocols, training of personnel, introduction of family doctors, and a licensing system for health professionals. The *State Program on Maternal and Child Health* established a priority on vaccinations and better pre-natal care. The *Electronic Health Card* program is being implemented to better coordinate the flow of health information between patients and doctors. A strategy for health financing and insurance is in the early stages of development. Improvements are also being made to health care

facilities with the construction of new regional hospitals and upgrading of rural health centers with focus on strengthening the primary health care. To ensure the quality of medical services the country has taken the lead in introducing the certification of health specialists.

**The Government intends to increase public expenditures on the health sector and increase its effectiveness in the coming years, as part of its health care financing system reforms.** Its budget for health in 2011 was AZN 563 million compared to AZN 429 million in 2010 (US\$ 1 = 0.7866 AZN). However, the share of health spending in total government expenditures slightly decreased to 3.5 percent in 2011 from 3.6 percent in 2010, and from as high as 5.9 percent in 1998. A large share of total health expenditures (66 percent) is still out-of-pocket, which impedes affordability for the poor. Funding resources are being increased for several vertical programs, such as chronic kidney failure, diabetes, etc., which provide assistance to poor and vulnerable groups of the population.



**The Bank is supporting the Government in building an effective health strategy through the *Health Sector Reform Project*.** With this project, the Government has initiated and piloted a gradual but comprehensive reform of the health care system in five districts where it will test new financing and health care service delivery models. Along with construction of new medical facilities (two 200-bed general hospitals) and renovation of the existing primary care facilities, the project supports a number of activities that will help build and strengthen professional capacity of medical personnel, improve under- and post-graduate medical education, and train primary health care physicians and nurses in family medicine.

## Education

**The desire of Azerbaijan to move up the ranks of upper middle-income countries has intensified the urgency for sustainable long-term reforms in the country's education system.** The net enrollment rate (grades 1-11) is around 95 percent, which is at the level of high-income countries and indicates wide access to

basic education. However, enrollment rates in pre-school and higher education still remains low. In addition, the quality of educational outcomes at all levels shows room for improvement. The OECD-sponsored “Program for International Assessment (PISA)”, tested 15 year-olds in 2006. Of the 62 countries that participated, Azerbaijan placed amongst the lowest in Reading and Science but performed much better in Mathematics. The 2009 PISA results showed a sharp drop in Mathematics results and only modest improvements in Reading and Science. As part of the ongoing work on improving quality, the Ministry of Education has introduced national assessments and a new curriculum in selected grades, which will be implemented in all grades over the next few years.



**The country approved an education reform program in 1999 introducing reforms in the primary and secondary education system.** This included a new curriculum, new student assessment methods and improvements in the delivery of in-service teacher training. In 2005, Azerbaijan joined the Bologna Process, a European higher education reform initiative that promotes comparability of degree systems, academic mobility, recognition, quality assurance and a qualifications framework. Education expenditures in 2011 were budgeted at AZN 1.4 billion compared to AZN 1.2 billion in 2010. However, its share in total spending decreased to 8.8 percent in 2011 compared with 10 percent in 2010.

**Several state programs support the reforms carried out by the Ministry of Education.** *The E-education Program (2008-2012)* helps improve quality of and access to education through the introduction of information, communication, and technology (ICT) systems in schools across the country; *The State Program on Development of Vocational Education in Azerbaijan Republic (2008-2012)* will strengthen and modernize the vocational education system to produce higher quality professionals that allow the country’s export sector to stay competitive; *The State Program on Education Abroad* will provide

scholarships to around 5,000 Azerbaijanis over 2007-2015 to study at the world’s best ranking universities – this merit-based scholarship program is supported by the State Oil Fund of Azerbaijan. *The State Program on Reforms in Higher Education in Azerbaijan Republic (2009-2013)* aims at promoting the principles of the Bologna process and promoting reforms to create a higher education system based on the requirements of a knowledge-based economy and modern society.

**The Government is eager to reform the higher education system as it presents an obstacle to further social and economic development.**

Azerbaijan has the lowest participation in tertiary education among CIS countries at 17 percent, and its tertiary education system is not producing the skills needed to support a competitive 21<sup>st</sup> century economy. While the number of university applicants has been rising in Azerbaijan in the past decade, the number of admitted students has been stable at 25,000-30,000 each year due to the imposing of an admissions quota on both public and private higher education institutions. As part of higher education reform, the Ministry of Finance initiated a financing reform in 2010 that introduced a per capita funding formula. Under the new scheme, universities receive a direct transfer of funds from the Ministry of Finance based on the number of students enrolled for a given year.

**The Bank supports the Government’s education reform program through investment operations and policy advice.** An ongoing PHRD grant is expected to be followed by a project for higher education, building on the progress achieved thus far as well as on the reform agenda articulated by the Government.

### 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, dysfunctional judicial infrastructure, and weak institutional capacity, and address the corruption that is perceived as being widely spread by many in the public.

**The Bank is helping the Government with the Judicial Modernization Project (JMP)** to improve the access to and efficiency of judicial services, retrain personnel and make informational more widely available to the public. A new fully equipped court house complex constructed under the JMP has already started providing integrated services to the public in Oguz. Over 160 judges have been appointed using new procedures for which the Bank-funded Judicial Modernization Project provided new equipment and software to the Judicial-Legal Council. Around 400 MOJ staff have been trained

in basic IT courses, with a second round of training that started in mid-July 2010. Infrastructure and ICT modernization is being implemented throughout the judicial system. New courthouses are being constructed and an Automated Registration System was installed for Civil Acts Registry with the help of hardware provided under the JMP

## Agriculture Development

**The agricultural sector is a key component of Azerbaijan's non-oil economy with considerable promise for competing in external markets and increasing its share in export revenues.**

While the agriculture sector accounts for only 7 percent of GDP it is a key employer of the economy, providing income and employment for about 40 percent of the total workforce. The dependence of an average rural household on agriculture is significant – almost 35 percent of all family income is generated from agriculture and the vast majority of farmers can be classified as semi-subsistence farm operators.



**The agriculture sector is a priority in the context of food security.** Although its share of the country's total export revenues now has declined to below 4 percent, the agro-food sector is the second largest exporter after oil and gas with a contribution to total exports in the non-oil sectors averaging around 50 percent. Cotton, caviar, fruit, vegetables, nuts, and wines are the main agro-food exports. Given its existing knowledge and export base, and its climatic and geographic advantages, the agricultural sector has significant business, job creation, and trade opportunities that remain to be developed. After experiencing a major decline during the early transition period (1991-1995), the sector began to recover in 1998. Since 1995, the sector has been growing at an average annual rate of more than 5 percent.

**The Government has launched a number of state programs to address some of the sector's challenges.** *The State Program on Reliable Provision with Food Products (2008–2015)* seeks to rehabilitate irrigation networks, develop food processing enterprises, improve genetics of livestock, support private sector activity in meat and milk processing, expand financing, and create a research

center for agriculture. The irrigation sub-sector development strategy is outlined in the *State Program on Amelioration and Irrigation* and also through a *Presidential Decree of 2006* on developing the water and irrigation sector. Planned policy and legislative reforms include a review of the veterinary law and preparation of a draft law on extension services.

**The Bank's major operation in the sector is the *Agricultural Development and Credit Program (ADCP)*.** This multi-phase Adaptable Programmatic Loan aims at boosting Azerbaijan's farming areas to higher levels of productivity under a new system where private family and group farms operate under market conditions. Building on its first phase, the ongoing second phase of ADCP continues to strengthen the credit union system established under ADCP-I and stimulates commercial financial services needed for agricultural businesses. It expands the outreach of the rural advisory services established under ADCP-I, promotes private veterinary services, and modernizes the State Veterinary Services. ADCP-2 also seeks to improve access to adapted technologies and help producers and processors get access to market and improve product quality.

**The Bank is engaged in strengthening the irrigation sector through the ongoing *Irrigation Distribution System and Management Improvement Project*,** which aims to improve on-farm water management systems through development of Water Users Associations (WUAs). A new irrigation project is under preparation and aims at improving the effectiveness and financial viability of irrigation water distribution and management through capacity strengthening of WUAs and rehabilitation of on-farm irrigation and drainage infrastructure.

## Transport

**Located strategically on the legendary Great Silk Route, Azerbaijan recognizes the importance of developing an efficient and affordable network of roads and infrastructure capable of meeting the needs of Azerbaijan's rapidly growing economy.** The length and coverage of Azerbaijan's road network provides basic capacity for interregional road transport and connectivity to its neighboring countries. However, its quality and capacity should increase to meet rising motorization rates, especially on sections of the main network, where increased traffic creates unsafe conditions and congestion. Only 74 percent of highways, 56 percent of secondary roads, and 29 percent of local roads are in good or fair condition. In other words, 62 percent of total network require expensive rehabilitation works. Road traffic safety also needs substantial improvements. In 2010, there were about 9.4 fatalities

per 10,000 vehicles, about five times the rate of the best practice countries.

**In 2010, transport accounted for 6 percent of GDP.**

Road transport dominates, accounting for over 51 percent of freight in 2010. Most passenger transport is by roads: 1.2 billion person trips against 4.8 million person trips by rail. Railways have a higher modal share in ton-km terms, but road transport hauls greater total tonnage: 100 million tons versus 22 million by rail. Railways dominate in the flow of oil products, but road infrastructure and services play a larger role in the rest of the economy and have a larger social impact.

**The condition of major arterial roads has improved due to significant Government investment and support from international financial institutions since 2004.** During 2005-10, the Government invested more than US\$ 5 billion into the modernization of the road infrastructure, including major highways and urban infrastructure. By 2015, the Government plans to have constructed, upgraded, and rehabilitated about 9,500 km of 121 roads, comprising 3,570 km of 63 state roads and 5,928 km of 58 secondary roads. Modernization of the railway infrastructure and rolling stock will be carried out under the recently approved *State Program on Development of Railway System in Azerbaijan for 2010-2014*.

**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.** The Bank cooperates with other development partners, such as the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), which are also active in the transport sector of Azerbaijan.



## Water Supply and Sanitation

**Azerbaijan inherited a relatively extensive water supply system from the Former Soviet Union (FSU).**

About 95 percent of the population in Baku and about 83 percent of those living in secondary cities and small towns are connected to piped water, but the quality of infrastructure and services has deteriorated severely since independence due to lack of investment and deferred

maintenance. In many secondary and small towns, water treatment facilities are largely dysfunctional or lacking completely, so that the population in these towns does not have access to safe water. In addition, piped water supply throughout the country is unreliable and is often available less than 12 hours a day. Centralized piped water supply systems are rare in rural areas, where less than 33 percent of the population has access to piped water supply.

**Azerbaijan is committed to using part of its new oil wealth to address infrastructure deficits in Water Supply and Sanitation and to develop the sector to become financially sustainable.** Important actions towards this goal include: (i) rehabilitating one of the two main water treatment plants serving greater Baku, bringing technical losses in Baku down from about 70 percent to 35 percent; (ii) introducing several major institutional changes including consolidation of numerous small ineffective utilities into one main entity AzerSu (SAWMA in Nakhchivan); and (iii) establishing a Tariff Council to guide tariff policies in the utilities sectors and increased tariffs.



**The Bank's investment program in the sector follows the Government's Water Sector Strategy for 2006-2015.** The Strategy was developed based on the *Water Sector Issues and Options Report*, a joint work by the Bank and the Government. The Bank-funded operations in the sector include two *National Water Supply and Sanitation Projects* for an amount of US\$ 490 million of which US\$ 30 million is on IDA terms. The first project is also supported by a Japan Social Development Fund (JSDF) grant from the Government of Japan. The projects are financing water supply and sanitation investments in 12 regions; preparation of a Regional Development Plan for Greater Baku, and institutional modernization in order to improve the efficiency and sustainability of water supply and sanitation services in the country.

**The Bank's main development partners in the water & sanitation sector of Azerbaijan are ADB, Germany's KfW, JICA, IDB and Switzerland's**

**SECO.** They maintain a close dialogue to carry out a coordinated implementation of their programs in Azerbaijan.

## 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 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 the operational effectiveness of the fuel and energy sector.

**Azerbaijan has a power supply system capable of delivering electricity of acceptable quality to almost the entire population.** Despite positive developments, institutional reforms in the sector lag behind the improvements in the physical infrastructure, and the energy and gas transmission and distribution networks are still in need of substantial investments and upgrading.

**Due to new massive investment by the Government in the Sumgait gas turbine combined cycle power plant, new power plants in Astara, Sheki, Xachmaz, Baku, Sangachal and Shadag started operating between 2006 and 2009.** Thanks to these new power stations, overall fuel consumption efficiency in thermal generation of Azerenergy improved from 330g/kWh (at equivalent standard fuel) in 2006 to 291g/kWh in 2009. Composition of fuel source for thermal power generation has also changed. Fuel composition in 2006 consisted of 77 percent gas and 23 percent oil, which further shifted to 97 percent gas with only 3 percent oil in 2009, and currently 100 percent gas combustion.

**The World Bank is engaged in the energy sector through the Power Transmission Project.** The project helps strengthen technically and institutionally the generation and transmission utility in order to improve the efficiency of the power transmission operation in Azerbaijan. A new SCADA system will upgrade the electricity dispatch system in the country, and a technical assistance operation will improve the management systems of Azerenerji, the state power generation and transmission company.

**The Bank's key development partners in the energy sector are EBRD, ADB and KfW.** The partners maintain a close dialogue to carry out a coordinated implementation of their programs in Azerbaijan.

## 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 43 projects in different sectors totaling over US\$ 3.1 billion of IDA Credits and Grants, and IBRD Loans, of which about 42 percent has already been disbursed.

Some three-quarters of World Bank lending has historically been provided to two main areas: transport (48 percent) and the water and sanitation sectors (21 percent). Other sectors that received substantial financing are public administration and law (8 percent), agriculture, fishing, and forestry (8 percent) energy and mining (5 percent) and finance (4 percent).

Currently, the transport sector dominates World Bank financing, receiving over 59 percent of investment funds, followed by the water sector (23 percent), agriculture, fishing, and forestry (5 percent) and public administration, law, and justice (5 percent).

**Currently the Bank portfolio consists of 17 active projects; total commitment reaches about US\$ 2.3 billion, of which about 74 percent is undisbursed.** Six projects out of 17 are financed on IDA terms and cover almost every sector, while the IBRD portfolio (11 projects) focuses mainly on the infrastructure sectors. The current low rate of disbursement is partly explained by a sharp increase of IBRD lending in 2008, which almost tripled the volume of the portfolio.

**Disbursements show a positive trend and steady growth is expected in the next year due to remedial actions resulting from the Joint Portfolio Performance Reviews (JPPR) conducted in 2009 and 2011.** Together with the Bank, the 19-member joint working group established by the Government reviews the portfolio performance on a regular basis with the purpose of resolving issues, monitoring progress and results, and accelerating implementation.

**The World Bank Country Partnership Strategy (CPS) for Azerbaijan for fiscal years 2011-2014,** discussed by the Board in October 2010, focuses on two key objectives: *strengthening the non-oil economy*, primarily through an improved business environment, better infrastructure, and improving agricultural productivity; and *improving the effectiveness of social and municipal services*, including health, education, social protection, and water supply and sanitation.

**Over the first two years, lending will total about US\$ 175.4 million to support projects for developing Water Users Associations, Capital Markets, the Judicial sector and supporting IDPs.** The lending program for the next two years will be defined by a progress report on implementation of the Strategy, which is due in the fall of 2012. With Azerbaijan's per capita income of US\$ 5,280 (Atlas method, 2011), the country is now a middle-income country and in 2011 graduated from receiving concessional financing from the World Bank.

The International Finance Corporation (IFC), the World Bank Group's private-sector lending arm, is targeting an increase in its investment program to about US\$ 200 million during this strategy period.

**A strong and enriched program of Analytical and Advisory Services (AAA) will complement the Bank's lending program.** This would serve the dual purpose of informing the country growth strategy and policy choices as well as the design of investment operations. The Bank will increase its analytical work in the areas of job creation and diversifying growth, poverty and inequality, public finance, the banking sector and capital markets, and agriculture and irrigation.

**The Bank delivered several major pieces of AAA in FY10-11.** These included the IDPs *Living Conditions*

*Assessment Report*, the *Consumer Protection and Financial Literacy Report*, and the *Analysis of Environmental Investment Priorities*. Four *Policy Notes on Economic Diversification and Growth* have been produced in 2012 to support the Second High Level Policy Forum that the government of Azerbaijan held on March 5-6, 2012 in Baku. The Policy Notes cover the areas of development of non-oil exports, markets institutions, agriculture policy and human capital. Work is close to completion or ongoing on the Programmatic Public Expenditure Review, National Solid Waste Management Strategy, and Sustainable Road Management and Financing in Azerbaijan.

Together with the Government of Azerbaijan, the World Bank is developing a multi-year Joint Economic Research Program (JERP) that will ensure continuous and timely access to high quality policy advice and technical expertise

**In addition to IDA/IBRD operations, the Bank's Trust Fund portfolio** consists of six active trust fund projects for the amount of US\$ 13 million that support the Bank's ongoing or proposed project preparation and implementation.

**\* All Project Briefs in the following pages were updated in February 2012.**

## AGRICULTURAL DEVELOPMENT AND CREDIT-II

### **Key Facts:**

**Approved:** June 27, 2006

**Effective:** December 29, 2006

**Closing:** February 29, 2012

### **Financing from all co-financiers, million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA Credit	29.2
Government of Azerbaijan	12.60
PHRD	1.61
Financial Intermediaries	4.7
Revolving Fund	9.56
<b>Total Project Cost</b>	<b>59.5</b>



### **World Bank Disbursements, million US Dollars:\***

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	29.2	30	1.1

\*as of February, 2012.

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

The objective of the Agricultural Development and Credit Program (ADCP) is to return Azerbaijan's farming areas to their former level of productivity under a new system characterized by private family and group farms operating in private markets. The program was designed in three phases.

**The Project Objective** is to further increase rural productivity and incomes by enhancing the access of farmers and small and medium enterprises to rural business and agricultural support services including financial, advisory, and veterinary services and by stimulating market oriented investments in rural areas.

**The Project** builds on ADCP-I's achievements by: (i) strengthening the credit union system established under ADCP-I and stimulating commercial financial services suited for agricultural businesses; (ii) expanding the outreach of the rural advisory services established under ADCP-I; (iii) developing private veterinary services and modernizing and streamlining the State Veterinary Services; (iv) improving access to adapted technologies; and (v) assisting producers and processors in marketing and improved product quality

### **Results achieved:**

The mid-term impact assessment indicates the Project is on track to achieve its development objectives. In particular:

- Net income of participating farmers increased by 30 percent from agricultural activities and by 39 percent from all activities (i.e. inc. non-agricultural)
- Farm information and advisory system covering the whole country has been established. Beneficiaries have been adopting many of the improvements recommended by advisory services and demonstrate improved management and increased production
- Investments expanded in rural areas with some 46,000 small loans in the total amount of AZN 62 million issued. This is a significant outreach as it engaged economically-active people previously excluded from formal banking sector.
- Some 110 investment loans in the amount of US\$ 17 million have been issued to medium agribusiness.
- Proven feasibility of private veterinary services established under the Project. Livestock owners are generally satisfied with the quality of services and the number of clients is increasing steadily. Brucellosis control program has been successfully piloted.
- 74 grants for introducing and transferring improved technologies have been awarded. Grant recipients are carrying out the technology transfer activities satisfactorily.
- The Project should now focus on sustainability of the information and advisory system established under the Project. The system should be integrated into the structure of the Ministry of Agriculture and funded out of the state budget allocation.

**Key Partners:** Ministry of Agriculture, State Agency of Agricultural Credits, State Veterinary Services, Azerbaijan Credit Union Association

## RAILWAY TRADE AND TRANSPORT FACILITATION PROJECT

### Key Facts:

**Approved:** March 27, 2008

**Effective:** March 15, 2010

**Closing:** September 30, 2013

### Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	450	3	447
Government	345		
<b>Total Project Cost</b>	<b>795</b>		

### World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	450	3.9	446.1

\*as of February, 2012

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



**Background:** The Government of Azerbaijan endorsed a comprehensive “State Program for the Development of Azerbaijan Railways 2010-2014” entailing institutional modernization and a list of priority investments. The main objectives of the Program are to: (i) satisfy the increasing demand from the population and the economy in 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; (v) support social and economical development of the country by decreasing the costs of passengers and cargo transportation; while (vi) progressively attaining financial self-sustainability for freight services.

The state program’s key priorities are: (a) Institutional modernization of Azerbaijan Railways CJSC and (b) Capital investments in rail infrastructure and rolling stock to allow it to maintain railways capacity and provide a sound basis for future expansion of railway operation.

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 competitiveness, financial sustainability, operating and cost efficiency, and capacity of the “Azerbaijan Railways” CJSC in particular along the transport corridor toward Georgia (east-west corridor).

### **Results achieved:**

- By a July 21, 2009 presidential decree, the Azerbaijan State Railway (ADDY) has been transformed into the “Azerbaijan Railways” Closed Joint Stock Company;
- State Program for the Development of Azerbaijan Railways 2010-2014 has been endorsed by President on July 6, 2010;
- Key consultancy services (Construction Management, International Financial Reporting Standards(IFRS), Oil Spills Response, etc) have been contracted;
- Procurement of major investment components (electrification and locomotives) is underway with a plan to contract all by the end of the 2011 calendar year. The track renewal has started with the first 10 km of track replaced.

### **Key Partners:**

**Ministry of Transport** – responsible for overall sector guidance, railway reform and project oversight;

**“ Azerbaijan Railways” Closed Joint Stock Company** – responsible for entire project implementation

## ADDITIONAL FINANCING TO THE JUDICIAL MODERNIZATION PROJECT

### Key Facts:

**Approved:** June 7, 2011

**Effective:** March 31, 2012

**Closing:** June 30, 2013

### Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA	21.6
Japan PHRD	3
Government	11
Additional Financing:	
IBRD	24.2
IDA	30.8
Government	28.3
<b>Total Project Cost</b>	<b>118.9</b>



### World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA	21.6	21.8	0.0
<b>Additional Financing:</b>			
IBRD	24.2	0.0	24.2
IDA	30.8	23.1	9

\*as of February, 2012.

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

**Background.** Azerbaijan is carrying out a range of reforms and increasing investments in the justice system to meet the challenge to fully comply with the right to a fair trial within reasonable time. To improve the quality and effectiveness of judicial services, the Government is trying to eliminate deficiencies in the normative framework and ensure functional judicial infrastructure and adequate capacity in the system.

**The Project Development Objective** is to assist the Azerbaijan authorities in developing and implementing the initial phases of a long-term judicial system modernization program by building capacity to achieve incremental improvements in efficiency, provision of information to citizens, and its ability to handle future demand.

### **Results to Date:**

- 157 judges have been appointed using new appointment procedures. The Judicial Modernization Project (JMP) has provided new equipment and software to the Judicial-Legal Council.
- About 700 Ministry of Justice (MOJ) staff have been trained in basic IT courses.
- Security and conference equipment have been installed at the Constitutional Court. Information and Communication Technologies (ICT) equipment, print house, and other office equipment was installed at the Supreme Court.
- Oguz court complex has been completed and started functioning. Construction of the Yasamal District Court in Baku is in progress and ahead of schedule. Construction of other courthouses in the regions (sites in Gedabek and Gandja city Nizami District) are underway and continue in accordance with the agreed construction schedule.
- Legal Information Centers in Baku and Guba cities are now active and have provided free legal aid to a total of more than 600 users.

### **Key Partners:**

Ministry of Justice

## SECOND EDUCATION SECTOR DEVELOPMENT PROJECT

### Key Facts:

**Approved:** April 21, 2008

**Effective:** December 1, 2008

**Closing:** March 31, 2014

**Financing from all co-financiers, million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA Credit	25
Government	20.4
<b>Total Project Cost</b>	<b>45.4</b>
Parallel financing- UNICEF	1.5

**World Bank Disbursement, million US Dollars:\***

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed<sup>2</sup></i>
IDA Credit	25	11.6	12.7

\* as of February, 2012

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



**The Project Development Objectives are:** i) more effective teaching and improved learning results; and ii) improved efficiency of spending in education.

### Results achieved:

- The subject curricula for general secondary (5-9 grades) and complete secondary (10-11 grades) education levels have been developed, widely discussed in media, including Curriculum Portal ([www.kurikulum.az](http://www.kurikulum.az)) and approved by the decree of the Minister of Education. Implementation of new general secondary education curricula will start in the academic year of 2013 in fifth grades. Around 800 staff in the have been trained to provide local support to implementation of new curricula.
- The Cabinet of Ministers has approved a new Regulation envisaging creation of a competitive environment among state, non-governmental and private institutions for delivery of in-service teacher training. According to the new Regulation, the training of primary school teachers on implementation of new curricula has started to be implemented through a competitive process and delivered in the schools. 18195 primary school teachers have received such trainings.
- Effective school improvement methodologies including a library component have been launched in 11 pilot schools of the Project ([www.sm11.edu.az](http://www.sm11.edu.az)). 5 out of 11 pilot schools have been renovated with incorporation of new design for libraries. Education departments in cities/districts have been instructed to implement the same design solutions in the remaining libraries of 500 schools covered in the Project. The Project procured 452 titles of books with total volume of 549000 copies and supplied them to 500 school libraries.
- The Project financed participation of Azerbaijan in international student assessment programs such as PISA-2009, TIMSS-2011 and PIRLS-2011. The Project also financed two national student assessment studies in 2009 and 2011. School-based assessment standards have been updated, new guidelines and teacher aids for implementation of school-based assessment have been approved.
- Preschool Parenting Education Program as well as School Readiness Program has been developed and implemented in Khatai, Goygol, Guba, Shamakhi, Lankaran, and Fuzuli regions of Azerbaijan. The programs covered 1319 parents and 687 students.
- New teacher recruitment procedures have been developed and introduced nationwide from 2010. The new procedures imply recruitment through electronic application and centralized computer-based exams.
- The system of strategic planning across the Ministry and regional departments has been created. The new comprehensive website ([www.edu.gov.az](http://www.edu.gov.az)) of the Ministry of Education has been launched and is being maintained.

### Key Partners:

Ministry of Education,

**Key Development Partners:** UNICEF

## CAPITAL MARKETS MODERNIZATION PROJECT

### Key Facts:

**Approved:** March 17, 2011

**Effective:** November 7, 2011

**Closing:** December 31, 2015

**Financing from all co-financiers, million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IBRD	12.0
SECO	1.60
Government	2.20
<b>Total Project Cost</b>	<b>15.80</b>

**World Bank Disbursement, million US Dollars:\***

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	12.0	30.000	11.9

\* as of February, 2012

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



**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 the capital market in the medium term is crucial to support economic diversification of the non-oil sector. The main activity of the Baku Stock Exchange (BSE) is to serve as the auction mechanism for the issuance of Government Securities. However, due to a number of factors, secondary trading of this treasury debt does not exist. Only two companies have listed their shares on the BSE to date 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). As a consequence of the underdevelopment of the capital markets, the banking sector dominates the financial sector with more than 95 percent of total assets. Banks have had little interest in investing in low yielding existing market instruments due to the weak investor base.

**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 regulatory framework and infrastructure.

**The Project** is providing financing for (i) streamlining and automating the market infrastructure; (ii) updating and strengthening the legal and regulatory framework; (iii) stimulating supply; and (iv) capacity building at the State Committee for Securities and public awareness activities.

### **Results achieved:**

- State Program on development of Securities market in 2011-2020 was endorsed by the President on May 16, 2011.
- Draft of the new Capital Markets Law has been submitted to the World Bank for comments.
- Experienced procurement and financial management specialists for the PIU have been selected via a competitive recruitment process.
- The project was signed at the end of September 2011.

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

**Key Development Partners** include (a) Sweden’s SECO who is expected to co-finance components 2 and 3 of the Capital Markets Modernization Project in the amount of about US\$ 1.6 million; (b) EU who is providing support for improving the capital markets legal framework under the TACIS project; (c) IFC who supported drafting of the new Laws on Investment Funds, Covered Bonds and Amendments to the Civil Code; and (d) IMF who has been supporting the development of Government securities market under the regional initiative funded by SECO.

## REAL ESTATE REGISTRATION PROJECT

### Key Facts:

**Approved:** May 21, 2007

**Effective:** September 17, 2007

**Closing:** February 28, 2013

### Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	30
Government of Azerbaijan	8.57
<b>Total Project Cost</b>	<b>38.57</b>

### World Bank Disbursement, million US Dollars:\*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	30	9.1	20.8

\*as of February, 2012

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



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

**The Project** addresses the challenge of developing efficient and reliable property markets in Azerbaijan focused around making the relevant information about the ownership and location of the properties available in a secure digital environment. Basic information about existing real estate is gathered by undertaking new mapping of individual property parcels and then combining existing property records with the new mapping in the computerized system. This creates a digital cadastre for existing properties and also identifies those properties that lack full documentation. The system features the development of new software and new procedures instituted to make the process of recording property rights simpler, more transparent and quicker. Notaries will be connected to the computerized system and will be able to perform most functions on-line. State-owned land and property is included within the recording system so this property can be managed transparently and efficiently. To support the system's long-term development, the project includes a full training program for property administration professionals, the establishment of a law center for informing policy decisions and drafting of legislation and regulatory acts, and a program for improving private sector participation in the services supporting real estate registration.

### Results achieved:

- Mapping for most of the country is completed, and the first stages of developing a continuously operating reference system for survey work (utilizing satellite based position fixing, such as GPS) is underway.
- The property registration offices have been renovated and in some cases new office space has been constructed. A high-speed communication system to link the system's offices is under construction.
- An information system strategy has been developed and tenders for the software development of the unified cadastre and registration system are in the final process of contract signing.
- Following successful pilot work, plans for generating new cadastre maps for about 4 million hectares of land are under evaluation.
- A well-equipped, functioning training center and a law review center have been established; and scanning and digitalizing of the country's existing paper property records is progressing well.
- The State Land and Cartography Committee has completed a strategic vision and business plan for their future activity, and a similar plan is under development for the State Committee for Property Issues.
- The project has also contributed to a major institutional restructuring in these two major public agencies working with real estate registration and surveying, and is providing capacity building support in a number of technical areas for these agencies.

### Key Partners:

The main counterparts are the State Committee for Property Issues, the State Land and Cartography Committee, and the Notary Department of the Ministry of Justice.

**Key Development Partners** include: a) SECO (Switzerland) who provides technical assistance and, in the past, some equipment; b) **KfW** (Germany) and the **Korean Republic** who are undertaking survey and cadastral work to improve methodology; and c) **USAID** who is providing advice and training in property valuation and mass appraisal techniques.

# CORPORATE AND PUBLIC SECTOR ACCOUNTABILITY PROJECT

## Key Facts:

**Approved:** March 27, 2008

**Effective:** December 19, 2008

**Closing:** December 31, 2013

## Financing from all co-financiers, million US Dollars:

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

## World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA	11	1.2	9.9

\*as of February, 2012.

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

	2004	2005	2006
<b>Assets</b>			
Operating cash	1,000	2,000	3,000
Accounts receivable	1,000	2,000	3,000
Inventories	1,000	1,000	1,500
Other current assets	1,000	2,000	3,000
<b>Total current assets</b>	<b>4,000</b>	<b>7,000</b>	<b>10,500</b>
Gross property, plant and equipment	10,000	12,000	13,000
Accumulated depreciation	(2,000)	(3,000)	(5,000)
<b>Net property, plant and equipment</b>	<b>8,000</b>	<b>9,000</b>	<b>8,000</b>
<b>Other assets</b>			
Goodwill	0	0	0
Discontinued operations	0	0	0
<b>Total Assets</b>	<b>13,000</b>	<b>17,000</b>	<b>20,000</b>
<b>Liabilities and Shareholders' Equity</b>			
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
<b>Total current liabilities</b>	<b>3,500</b>	<b>6,000</b>	<b>8,000</b>
Long-term debt	2,000	3,000	3,500
Other long-term liabilities	0	0	0
Deferred income taxes	500	500	500
<b>Total liabilities</b>	<b>6,000</b>	<b>9,500</b>	<b>12,000</b>
<b>Total shareholders' equity</b>	<b>7,000</b>	<b>7,500</b>	<b>8,000</b>
<b>Total liabilities and equity</b>	<b>13,000</b>	<b>17,000</b>	<b>20,000</b>

**Background.** In Azerbaijan, a critical issue among the “cross-sectoral” issues to be addressed is the relatively weak legal and institutional framework for accounting and auditing, and 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 of a modern market-driven economy.

The project interventions are anchored in the Government’s reform agenda that aim 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 Chamber of Auditors (in its role as the country’s auditing services regulator and standard-setter), the Ministry of Finance, and accounting and auditing professionals and stakeholders in Azerbaijan.

## Results achieved:

Establishment of the Azerbaijan Center for Professional Accounting and the Audit Training, Education and Research (ACPATER) has been initiated. The project has been restructured to better address current priorities of the Government in accounting and audit reform. A local professional accounting qualification program has been developed. The program envisages integration of teaching accounting and audit subjects at higher education universities and professional accounting qualification trainings.

**Key counterparts:** Ministry of Finance, Chambers of Accounts, Chambers of Auditors, Azersu, Azerkimya, Baku Metropolitan, other State-owned enterprises.

**Key Development Partner** is SECO who allocated grant funds for Chamber of Accounts sub-component of the project.

## HIGHWAY II PROJECT

### Key Facts:

**Approved:** January 17, 2006

**Effective:** August 09, 2006

**Closing:** February 28, 2014

### Financing from all co-financiers, million US Dollars:

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

### World Bank Disbursement, million US Dollars:\*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	200.0	200.0	0.0
<b>1<sup>st</sup> Additional Financing:</b>			
IBRD	300	137.5	162.5
<b>2<sup>nd</sup> Additional Financing:</b>			
IBRD	113	26.5	86.5
IDA	62	0.0	64.5

\*as of February, 2012.

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 stimulation of economic growth, non-oil economic development, and reduction of poverty. Improvement of the road network has been identified as one of the priorities for production diversification. Meanwhile, 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 of 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, Kurdamir – Ujar Section of Baku –Gazakh Road (M2), Tagiyev-Sahil Road (R6) and Hajigabul-Bahramtapa road (M6).

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

### Results achieved:

- Construction of 1B section (22 km) of Alat-Masalli road is completed
- Construction of 1A section (9 km) of Alat-Masalli road is completed
- Construction of 1B section (22 km) of Alat-Masalli road is completed
- Construction of Kurdamir –Ujar section of M2 highway is completed
- About 59% of works are implemented at Tagiyev-Sahil road
- About 13% and 15 % of works are implemented at sections 1C and 2 of Alat-Masalli road, respectively
- About 10 per cent of works are implemented at M6 Hajigabul-Bahramtapa road.
- Implementation of most technical assistance has been finalized or is satisfactorily progressing

### 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.

**The Ministry of Transport**, which is responsible for overall policy setting in the sector.

**Key Development Partners** include the ADB and EBRD who finance other sections of the Azerbaijan transport corridors and with whom the Bank Team coordinates closely the project activities and sector issues.

## HIGHWAY III PROJECT

### **Key Facts:**

**Approved:** May 25, 2010

**Effective:** November 08, 2010

**Closing:** March 31, 2015

### **Financing from all co-financiers, million US Dollars:**

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

### **World Bank Disbursement, million US Dollars:\***

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	171.6	4.8	166.8
IDA	70.0	0.0	71.4

\*as of February, 2012.

*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 stimulation of economic growth, non-oil economic development, and reduction of poverty. Improvement of the road network has been identified as one of the priorities for the production diversification. Meanwhile, 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 infrastructures are beyond its useful lifespan and overall infrastructure quality and reliability are generally poor.

**The Project Development Objective** is to contribute to a more efficient and safer Baku-Shamakhi road and higher quality road services as part of the upgrading to motorway standards, and to improve the management of the nascent motorway network

**The Project** will finance (i) upgrading of a 100km section of existing two lanes M4 Baku-Shamakhi road into a four-lane motorway, (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:**

- About 5.5% of works are implemented at section 15-45km of M4 Baku-Shamakhi road
- Design is being prepared for remaining section of M4 Baku-Shamakhi road
- Preparations for implementation of institutional development activities are ongoing

### **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.

**The Ministry of Transport**, which is responsible for overall policy setting in the sector.

**Key Development Partners** include ADB and EBRD who finance other sections of the Azerbaijan transport corridors and with whom the Bank Team coordinates closely the project activities and sector issues.

## NATIONAL WATER SUPPLY AND SANITATION PROJECT

### Key Facts:

**Approved:** June 14, 2007

**Effective:** March 14, 2008

**Closing:** January 31, 2012

**Financing from all co-financiers, million US Dollars:**

Financier	Financing
IBRD	230
Government	80
<b>Total Project Cost</b>	<b>310</b>

**World Bank Disbursement, million US Dollars:\***

	Financing	Disbursed	Undisbursed*
IBRD	230	27	180.6

\*As of February, 2012.

*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 take the policy and institutional measures needed to place the sector on 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) mandating the 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 outside of Baku's metropolitan area, with 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 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 works (feasibility and field studies, Environmental Impact Assessment (EIAs) for all rayons have been completed and approved;
- Bidding for Sharur and Babek rayons of Nakhchivan has been cancelled after INT case and decision on misprocurement with cancellation of funds for Nakhchivan has been taken. As a result the investments for Nakhchivan have been excluded from project and will be covered from the state budget;
- The project has been restructured to reduce the scope of works from 22 rayons to 4 to reflect the misprocurement case and cost overrun due to higher bid prices. As a result the project will cover the full rehabilitation of Water Supply (WS) and Waste Water and Sanitation (WWS) systems in Shamakhi, Gabala, Saatli and Sabirabad rayons. The remaining rayons will be financed from the state budget and the IDB;
- The works at Shamakhi rayon water intake have been completed. Procurement for the rest of the system (network and Waste Water Treatment Plant (WWTP) is underway;
- The works at Gabala rayon water intake are progressing while the procurement for the rest of the system (network and WWTP) is underway;
- Bidding for the investments in Saatli and Sabirabad rayons is underway with plan to contract full investments by end of June 2012;
- The major consultancy services for the preparation of the Greater Baku Regional Development Plan are contracted and first inception report is due by end of February 2012.

### Key Partners:

**Azersu Open Joint Stock Company** - the implementing agency for the project in the mainland of Azerbaijan;

**State Urban Planning and Architecture Committee (SCUPA)** – the implementing agency for the preparation of Greater Baku Regional Development Plan.

## SECOND NATIONAL WATER SUPPLY AND SANITATION PROJECT

### Key Facts:

**Approved:** May 20, 2008

**Effective:** July 13, 2009

**Closing:** February 28, 2013

### Financing from all co-financiers, million US Dollars:

Financier	Financing
IBRD	230
IDA	30
Government	150
<b>Total Project Cost</b>	<b>410</b>

### World Bank Disbursement, million US Dollars:\*

Financier	Financing	Disbursed	Undisbursed*
IBRD	230	36.2	193.8
IDA	30	8	21.1

\*as of February, 2012.

*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 take the policy and institutional measures needed to place the sector on 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) mandating the 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 outside of Baku's metropolitan area, with 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 water supply and sanitation services in Azerbaijan's regional (rayon) centers as well as the villages located in close proximity of the urban centers or along the transmission mains supplying the centers.

### Results achieved:

- Upon request from the Government, AzerSu JSC has been replaced by a new implementing agency: Azerbaijan Amelioration & Water Management Joint Stock Company. Project has been restructured and amended and restated loan and financing agreements were signed on October 16, 2009 and declared effective on March 16, 2010;
- Preparatory works (feasibility and field studies, Environmental Impact Assessment (EIAs) for all rayons have been completed and approved;
- The project went through a second restructuring to reduce the scope of works from 20 rayons to 8 to reflect the cost overrun due to higher bid prices. As a result the project will cover the full rehabilitation of Water Supply (WS) and Waste Water and Sanitation (WWS) systems in Siyazan, Shabran, Aghsu, Ismayilli, Masalli, Lerik, Yardimli and Jalilabad rayons. The remaining rayons will be financed by the state budget and IDB;
- Civil works for construction and rehabilitation of water supply and sanitation systems in Siyazan and Shabran rayons are contracted and the works are implemented by 60% (total value of contracts is US\$ 64.1 mln);
- Civil works for construction and rehabilitation of water supply and sanitation systems in Aghsu, Ismayilli, Lerik, Yardimli, Masalli have been contracted and construction is about to start (total value of contracts is above US\$ 200 mln);
- The procurement of works in Jalilabad rayon is under completion with three key contracts awarded and last contract under procurement;

### Key Partners:

**Azerbaijan Amelioration & Water Management Joint Stock Company** – responsible for investments in the 16 rayons of Azerbaijan mainland.

## INTEGRATED SOLID WASTE MANAGEMENT PROJECT

### Key Facts:

**Approved:** June 17, 2008

**Effective:** July 31, 2009

**Closing:** September 30, 2013

### Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	29.5
Government	12
Total Project Cost	41.5

### World Bank Disbursement, million US Dollars:\*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	29.5	5.2	24.3

\*as of February, 2012

*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 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) lack of coverage, (b) poor quality of waste collection; and (c) lack of financial sustainability.

**The Project Development Objective** is to support the reform of the Greater Baku solid waste collection and disposal operations into an effective and sustainable system in the fields of (i) data collection and strategic planning, (ii) buildup of operational, management, and communication capabilities of the responsible agency, (iii) the rollout of collection services, and (iv) the improvement of environmental conditions at the existing waste disposal sites.

### Results achieved:

- By presidential decree on August 17, 2008 the “Tamiz Shahar” OJSC has been established under the supervision of the Ministry of Economic Development (MED);
- All key consultancy assignments have been contracted and their implementation started (Management support to “Tamiz Shahar” OJSC, Solid Waste (SW) Master Plan for Greater Baku, Rehabilitation of Balakhani landfill and remediation and/or closure of illegal dump sites, etc);
- Landfill management at central Balakhani landfill has substantially improved (i.e. waste is not burning anymore, illegal waste pickers are now employed by Tamiz Shahar, waste is compacted and covered by soil, etc);
- Balakhani landfill has been fenced and equipped with necessary equipment to ensure proper waste management;
- The preparation of National Solid Waste Management (SWM) Strategy is advancing with the workshop planned in mid March 2012 to discuss the final findings of the strategy.

### Key Partners:

**Ministry of Economic Development (MED)** – overall responsible for project implementation and day-to-day project management (including procurement and financial management), liaison with the government, the Bank and other donors and monitoring of project progress.

**“Tamiz Shahar” OJSC** – Project’s beneficiary responsible for waste utilization in Greater Baku.

**“Baku City Executive Power”** – Project’s beneficiary responsible for waste collection and transportation in Greater Baku.

## IDP LIVING STANDARDS AND LIVELIHOODS PROJECT

### Key Facts:

**Approved:** October 27, 2011

**Effective:** February 9, 2012

**Closing:** December 31, 2015

### Financing from all co-financiers, million US Dollars:

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

### World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD	50	0	50

\*as of February, 2012.

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



**Background.** In 1988-93, the Armenia-Azerbaijan conflict caused the displacement of about 600,000 Internally Displaced Persons (IDPs) from the parts of Azerbaijan territory occupied by the Armenian armed forces. The large-scale ongoing government investments made under this resettlement program have contributed to resolving the problems of IDPs living in the harshest conditions. However, the Government efforts have not been able to address the critical need for continuing improvement in living conditions for the approximately 400,000 most needy IDPs scattered in small communities throughout the country and many IDPs live in worse housing conditions and have more constrained economic opportunities than the rest of the population.

**The Project Development Objective** is to improve living conditions and increase the economic self-reliance of targeted internally displaced persons.

**The IDP Living Standards and Livelihoods Project** is designed to achieve the following results: (i) about 200 demand-driven small-scale micro-projects to improve local services and infrastructure for IDPs, (ii) full scale renovation of 95 collective centers to improve the housing conditions of IDPs, (iii) provide vocational training for 1400 young IDPs and provide them with the training, support and resources to start small scale businesses, (iv) support the establishment of 250 community based micro-enterprises (v) extend more than 1500 micro-credit loans.

## RURAL INVESTMENT ADDITIONAL FINANCING PROJECT

### **Key Facts:**

**Approved:** June 03, 2004

**Effective:** January 18, 2005

**Closing date:** March 31, 2009

**AF Approved :** March 27, 2008

**Effective:** June 12, 2009

**Revised closing date:** March 31, 2012

### **Financing from all co-financiers, million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA	30.00
PHRD	3.30
Government	10.25
Beneficiaries	3.03
<b>Total Project Cost</b>	<b>46.58</b>

### **World Bank Disbursements, million US Dollars\*:**

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA	30	30.4	0.014

\* As of February, 2012.

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



**The Project Development Objective** is to improve living standards through improved access to infrastructure services for households in rural communities completing micro-projects. The dilapidated state of rural infrastructure constrains socioeconomic development of rural population. Portable water supply is erratic for 30% of rural population, and farmers are forced to sell about 80% of their produce to external agents at 30% lower prices, due to poor road to market.

**The Project.** The original project covered 21 districts targeting rural communities (1,000-10,000 population) with high agricultural potential and incidence of poverty. This additional financing would expand the project to new areas, increase the number of beneficiaries, ensure greater cost efficiency and extend the life of the project.

### **Results achieved:**

Improved access to critical rural infrastructure for 1,603, 207 people in 596 communities.

Rural roads were rehabilitated in 318 communities, which not only improved mobility within rural communities (hence access to schools and clinics within villages) but also increased income of farmers. 82% of farm products are now brought to markets in nearby towns by farmers themselves after road rehabilitation (18% in non-beneficiary areas); and farm gate prices increased by 26% for various crops in project areas (6% for non-project areas).

Potable water supply systems were rehabilitated in 101 communities and 207,105 rural people in the worst served communities now have access to safe drinking water.

Irrigation systems were rehabilitated in 35 communities and increased average productivity by about 30%.

Created 16,585 person-month of jobs.

### **Key Partners:**

#### **State Agency on Agricultural Credits under the Ministry of Agriculture**

Communities and local municipalities play a key role both in contributing to investment costs and the operation and maintenance of the rehabilitated infrastructure. Local governments contributed AZN 1,384,000 for operation and maintenance (OM) cost, purchasing of additional equipment, etc., which accounts for about 10% of investment costs.

# PUBLIC INVESTMENT CAPACITY BUILDING PROJECT

## Key Dates:

Approved: June 24, 2009  
 Effective: November 3, 2009  
 Closing: March 31, 2014

## Financing from all co-financiers, million US Dollars:

Financier	Financing
IDA	8
Government	2
<b>Total Project Cost</b>	<b>10</b>

## World Bank Disbursement, million US Dollars:\*

Financier	Financing	Disbursed	Undisbursed
IDA	8	4	4.4

\* As of February, 2012.

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



**Background:** Based on Bank estimates, 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 implementation and management of infrastructure projects and the resulting outcomes. The Bank has long been assisting the Government to improve the capacity as a means to successfully pursue the 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 preparation and implementation of investment projects in key priority sectors, especially infrastructure.

**The PICBP** will build broad stakeholder support through: (i) focusing on project management and technical capacity building in infrastructure sectors, with the focus on roads and water supply and sanitation sectors; (ii) develop a capacity-building network of academic institutions (such as the State Economic University, University of Architecture and Construction) 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:

- 45 courses were offered by January 2012 for 60 groups with 1190 participants from 23 government agencies and academic institutions.
- Training Centers have been established at Azerbaijan Architecture and Construction University and State Economic University.
- The project website is active and populated with information on upcoming and completed training courses, course materials. The project website is used for the tendering process and for reporting on project progress to the public.
- Masters of (i) Water and Waste Water Management and (ii) Solid Waste Disposal under development at the Architecture and Construction University.
- Certificate of Project Management, co-financed by British Petroleum, is delivered at Khazar University.
- With support of the Project the Tamiz Shahar is developing Corporate Performance System to improve reporting and decision making.

## Key Partners:

**Ministry of Education and its Project Coordination Unit (PCU)** is responsible for day-to-day implementation of the Project;  
**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, Azerenergy 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 Development, 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 the State Securities Commission.

## WATER USERS' ASSOCIATION DEVELOPMENT SUPPORT PROJECT

### Key Facts:

**Approved:** April 26, 2011

**Effective:** December 21, 2011

**Closing:** June 30, 2016

### Financing from all co-financiers, million US Dollars:

Financier	Financing
IDA	76.8
IBRD	3.2
Government	34.3
<b>Total Project Cost</b>	<b>114.3</b>

### World Bank Disbursement, million US Dollars:\*

	Financing	Disbursed	Undisbursed*
IDA	76.8	1.9	73.7
IBRD	3.2	0.0	3.2

\* As of February, 2012.

**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 potential for competing on the internal and external markets. While the agricultural 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, combined with 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 sub-sector. This includes an ongoing but incomplete irrigation reform agenda, exacerbated by a deteriorated irrigation and drainage (I&D) infrastructure, in particular on-farm I&D infrastructure. The core irrigation reform underway consists of irrigation management transfer of on-farm I&D systems to water users to enable technical and financial viability of the systems. 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 for capacity building of Water Users Associations (WUAs) to take over the management on the on-farm I&D system in combination with rehabilitation of the on-farm I&D systems. Overall rehabilitation needs are estimated to be in the order of US\$ 900 million for the whole country. The Water Users Association Development Support Project (WUAP) builds on this approach.

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 institutional strengthening and capacity building of AIOJSC and the irrigation sector as a whole; (ii) On-farm Irrigation and Drainage Rehabilitation, which will finance rehabilitation of on-farm irrigation and drainage systems for eligible WUAs in selected rayons; and (iii) Project management and monitoring and evaluation.

### The project is effective 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 maintenance and operations costs of on-farm I&D system.
- Increased percentage of water users satisfied with WUA managerial and operational performance.

### Key Partners:

Azerbaijan Amelioration and Irrigation Open Joint-Stock Company

## HEALTH SECTOR REFORM PROJECT

### Key Facts:

**Approved:** June 29, 2006

**Effective:** December 20, 2006

**Closing:** December 31, 2012

### Financing from all co-financiers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	50
Government	28.25
<b>Total Project Cost</b>	<b>78.25</b>
Parallel financing	
UNICEF	0.47
WHO	0.04

### World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA Credit	50	32	21.3

\* As of February, 2012.

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



**The Project Development Objectives** are to: (i) improve overall health system stewardship and financing, (ii) enhance equitable access to and quality of essential healthcare services in the selected districts (Sheki, Ismayilli, Agdash, Gakh, Apsheron).

### **Results achieved:**

- Technical assistance is provided to doctors' certification process launched in 2011.
- According to the plan accepted by the Ministry of Health (MOH) and the Medical University for reforming undergraduate medical education, changes have been made to the academic programs and teaching processes.
- Master Plan and Rationalization Plan for staff and health facilities for 5 pilot districts were prepared under the project and extrapolated for the countrywide rationalization of health facilities and human resources.
- Construction of two general 100 bed-hospitals based on international standards in Sheki and Agdash were completed and inauguration of hospitals took place in October 2011.
- 8 PHC facilities and 3 village hospitals are being constructed.
- Analysis of healthcare costs at regional facilities and piloting of new per case provider payment mechanisms to replace historical budgetary allocations were completed. Received data will be used to measure the quality of services provided by hospitals and to control the performance of inpatient health facilities electronically.
- Family Medicine and in-service training is being conducted in Ismayilli, Sheki, Agdash, and Gakh for doctors and nurses. Management training curriculum for the staff of medical facilities in that rayons is under preparation.
- Improved process of medical care and services delivery through preparation and adoption of quality standards and guidelines, such as minimum standards for issuing licensing and accreditation of health facilities, clinical guidelines and protocols, medical equipment standards, etc.
- National Health Information System (NHIS) implementation Road Map Report was completed and implementation to be started shortly. Preparatory works for the piloting of the prototype health management information system (HMIS) at the regional level in the Gakh Central Hospital were completed.

### **Key counterparts:**

Ministry of Health, USAID, WHO

## SOCIAL PROTECTION DEVELOPMENT PROJECT

### Key Facts:

**Approved:** May 27, 2008

**Effective:** March 17, 2009

**Closing:** September 30, 2013

### Financing from all co-financiers, million US Dollars:

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

### World Bank Disbursement, million US Dollars:\*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA Credit	26.7	6.2	19.1

\* As of February, 2012.

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



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

### Results achieved:

- Professional orientation legislation is being currently reviewed and new proposals developed to introduce modern professional orientation services to youth. Employment centers in Baku, Sumgait, Ganja, and Goychay are involved.
- General Employment Department (GED) of the Ministry of Labor and Social Protection of Population (MLSP) together with the international experts prepared analysis of best practices on Active Labor Market (ALM) policies/ programs, and a framework document on shortfalls and options for improvement of GED capacity.
- Development of modular training programs has started, 26 out of the planned of 30 modular training programs have been prepared, in close collaboration with the Ministry of Education. Training for 15 Trainers was carried out.
- Development of improved occupational standards in accordance with ISCO88/08 and relevant training standards is in the progress: 52 standards for priority occupations in 5 main sectors of economy (construction, tourism, manufacturing, agriculture, and energy) have been prepared and approved by the Bank. Based on other countries' experience, a document on occupational assessment, certification, as well as training standards to be applied in Azerbaijan has been developed.
- Eight Manuals for Improving of Labor Services are prepared.
- Improvement of technical Infrastructure of Labor Inspectorates is underway (procurement of mobile laboratories and suitcases for inspectors).
- Review of legal documents and required updates for Labor Code and State Labor Inspectorat (SLI) statute; the zero based audit to provide a Training Needs Analysis; the laboratory equipment design and technical specifications for mobile lab equipment; the database for workplace information management; and the development of SLI laboratory design in accordance with international standards are underway.
- Options for transition from medical to social rehabilitation and integration are being developed as well as first steps to undertake during the transition period.
- Company for the development of Policy analysis and formulation of pension system development strategy has been selected; contract is to be signed shortly.

### Key Partners:

Ministry of Labor and Social Protection of Population, State Social Protection Fund.

**Key Development Partners:** EU