



1. Project Data:		Date Posted : 06/04/2004	
PROJ ID: P008283		Appraisal	Actual
Project Name: Institution Building Technical Assistance	Project Costs (US\$M)	20.3	17.07
Country: Azerbaijan	Loan/Credit (US\$M)	18.0	14.77
Sector(s): Board: PSD - Central government administration (81%), Payment systems securities clearance and settleme (13%), Law and justice (6%)	Cofinancing (US\$M)	n	
L/C Number: C2769; LP261			
	Board Approval (FY)		95
Partners involved :	Closing Date	06/30/1999	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
Michael R. Lav	John H. Johnson	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
(a) provide support to the Government in formulating and implementing market-oriented reforms; and (b) to boost Azerbaijan's capacity to implement and sustain reforms .			
b. Components			
1. Privatizing Enterprises: (a) develop strategy for broad-based privatization, promote public enterprise reform through improved governance and information systems, and create a framework for capital markets); (b) provide equipment supporting creation of an enterprise financial data base suitable for mass privatization and subsequent tracking; (c) provide training and study tours for the State Privatization Committee, and (d) disseminate information about the privatization program to ensure active public support and participation .			
2. Strengthening Macro-Economic Management: (a) strengthen the capacity of the Ministry of Finance (MOF) to formulate, monitor and implement budgetary and external debt management systems, including appropriate computer equipment; and (b) help the State Tax Administration (STA) broaden the tax base to cover the newly emergent private sector, while accelerating assessment and collection procedures .			
3. Financial Sector Development: (a) provide equipment for training and for a feasibility study of a new payments system; (b) assist the MOF and the National Bank of Azerbaijan (NBA) in the adoption of modern enterprise and bank accounting and auditing procedures; (c) strengthening the banking supervisory function, including financial studies of selected large commercial banks; and (d) training of personnel in the National Bank and commercial banks .			
4. Legal and Regulatory Framework. Assist the Parliament Secretariat in creating a legal framework for a market economy, with emphasis on commercial law and revision of anti-monopoly legislation.			
c. Comments on Project Cost, Financing and Dates			
The project cost US\$ 17.07 million. It was financed by an IDA credit for US\$ 18 million, of which US\$3.23 million was cancelled for reasons of misprocurement. The net IDA contribution amounted to US\$ 14.77 million. The project was appraised on April 7, 1995, approved by the Board on July 25, 1995, made effective on March 27, 1996, and closed on June 30, 2003, four years behind schedule.			
3. Achievement of Relevant Objectives:			
1. Privatization and Enterprise reforms. (a) Privatization (i) Mass privatization: 28,660 of nearly 33,000 small-scale enterprises were privatized under a voucher program, as well as 1483 medium-scale enterprises. (ii) Large-scale enterprise privatization: Significant progress toward readying the Baku Water Supply and Baku Gas Supply and Distribution enterprises was achieved . A comprehensive strategy to privatize an additional 20 such enterprises, including individualized recommendations, was completed . A labor redeployment plan for prospective privatized enterprises was developed, including recommendations for best practice social safety nets . A new Ministry of Economic Development absorbed the old State Property Committee, providing stronger institutional support for the privatization process. The Development Credit Agreement was amended to allow the project to finance improvements for mass privatization auction centers; (b) A National Depository Center (Registrar of Companies) was			

established which will facilitate private investment and the operation of the stock market . A National Automated Property System (NAPS) was created which centralizes existing information on state property and makes it available to interested parties such as investment banks . While the early phases of privatization were non-transparent, improvements, especially when the MED took charge of the program, appear to have made the system transparent and publicly accepted; (c) study tours were replaced by in-country training in accordance with the country's new policy. The ICR states that documentation is not adequate to learn the total amount of training provided; (d) A public education campaign was implemented to disseminate information about the privatization program to ensure active public support and participation; and (e) The project supported development of model charters for use by enterprises . The Bank's work on capital market development was assisted by other donors which provided assistance for a legal framework.

2. Strengthening Macro-Economic Management. (a) The project financed technical assistance to help prepare the country's first public investment program, used as a basis for a donor's conference . Project funds were inadequate for extensive development of needed systems, so these project funds (US\$1.1 million) were re-allocated to the MED for the privatization component, and USAID and IBTA II financed the treasury systems development . MOF capacity was improved to formulate, monitor and implement budgets (while assistance was provided by the IMF to strengthen the treasury operations of the MOF), and to provide computer equipment to obtain timely information on budget implementation; and (b) the project assisted the STA by providing computer equipment to create a network between regional offices of the Ministry of Taxes, 18 staff of the ministry were trained for a month in software development . Improved databases management systems were installed .

3. Financial Sector Development. (a) A Real Time Gross Settlement System (RTGS) was put in place by the Bank of Azerbaijan. A new inter-bank payments system was designed, and implemented for settlement among banks . Consulting services helped prepare the NBA for the operation of the TRGS, helped implement the TRGS and related accounting software, and provided project management services for turnkey installation and operation of the new system. NBA officials were trained in the operation of the RTGS . A General Ledger Accounting System (GLAS) was implemented in parallel with the RTGS. The GLAS provides automation of accounting and financial operations and registration according to international standards, including registration of customers and private accounts, framing operations according to the Chart of Accounts, automation of cash payment services, and automatic generation of financial and statistical reports . (b) Three state banks were audited, analyzed and restructuring plans were prepared . Two state banks (the Industrial Ban, and AgropromBank) were twinned, while the Savings Bank completed the first stage of twinning with the Sumitomo Bank . As the financial condition of AIB and PIB banks continued to deteriorate, it was decided to liquidate these banks two banks and transfer their assets to another bank, which was done . Reforms in bank accounting ended up being financed by USAID and IDA's Financial Sector TA project . The IBTA supported assistance to the MOF and the National Bank of Azerbaijan (NBA) in the introduction of modern enterprise accounting and auditing; and (c) training for the National Bank and commercial bank staff was carried out, but project documentation does not capture information about the number of persons trained by specialization, type of training, length and outcomes of training .

4. Legal and Regulatory Framework. The EU/TACIS (European Union, Technical Assistance for CIS Countries) took over this component and project funds were re-allocated to the privatization component .

5. Other assistance: Improved computer infrastructure. The project provided equipment/support to the Ministry of Labor and Social Protection, the State Committee for Statistics, the State Committee for Standards, the Antimonopoly Committee, and the State Committee on Architecture . While this assistance had not been specified in the MOP or the DCA, it was provided under the component "other technical assistance" .

4. Significant Outcomes/Impacts:

Mass privatization and large-scale privatization programs were supported, 1,483 medium scale and 28,660 small-scale enterprises were privatized, but it is not clear if 60 percent of state property was privatized as stated as an objective in "expected outputs and outcome", annex 1a. Fiscal management was improved. The RTGS and GLAS systems have modernized the processing of data by the banking system, and modernized clearing mechanisms were introduced, which greatly improved banking sector operations and the capacity of the central bank to monitor developments. The efficiency of tax administration was improved, and the Tax Administration now services 10 times as many taxpayers as before, while response times are shortened and revenue collection speeded up. This project played an important role in supporting measures associated with SAC II .

5. Significant Shortcomings (including non-compliance with safeguard policies):

Intended reforms in area of enterprise accounting were not carried out . Proposed assistance with external debt management noted in the DCA (but not the MOP) does not appear to have occurred . Misprocurement caused cancellation of one contract for US\$216,214.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	Not all project components were achieved, notably the intended improvement central bank supervision capacity. Moreover, the goal of privatizing

			60 percent of state property was only achieved for small-scale enterprises, but not for the largest such enterprises. (Data for medium-scale enterprises was not provided, so that compliance here is unknown.) Other shortcomings include misprocurement resulting in a partial cancellation of the credit, and a four year delay in loan closing. Finally, the ICR does not comment on implementation of the debt management component of the project, so the outcome here is unknown. Despite the many achievements of the project, with these shortfalls, an outcome rating of moderately satisfactory is warranted.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Highly Likely	Highly Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Continuity of staff, especially for a complex technical assistance project, is essential. The first phase of implementation of this project was marred by frequent staff changes, and a consequently very slow start. Later, with staff continuity and the improved attention of the Director, performance was much stronger. 2. T.A. projects should specify intended components with a reasonable degree of specificity. In this project, computer hardware and software were provided to a number of agencies in accordance with the projects second objective (to provide support for institution building and domestic capacity, and were financed under "Other Technical Assistance" in Schedule A of the MOP. but which were not clearly identified in the project's components.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

About \$3 million in project funds were cancelled, yet the ICR notes without comment /analysis that several components of the project were not funded because the tasks were larger than foreseen with consequent inadequate funding (although they were picked up by other agencies). The DCA notes in Schedule 2 (description of the project), part B, that one of the project's objectives is to establish an external debt management system. This is not reflected in the MOP nor discussed in the ICR. The ICR could have explained more clearly the objective of providing computer support for a number of agencies (cited in Section 4.2 F) which were only loosely covered under "Other Technical Assistance" in the MOP. The ICR states a key of objective of privatizing 60 percent of state assets, but does not specify the derivation of this objective nor give details as to whether or not it was achieved. However, on balance, the ICR merits a rating of satisfactory because it adequately covers the essential points of this complex project.