



# EVALUATION BRIEF

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## Azerbaijan: Reconstruction of an Economy

IDA's efforts to help Azerbaijan reconstruct its economy after independence can be divided into three phases. In 1995, IDA supported a successful stabilization and structural adjustment program, which reduced the deficit and brought down inflation. IDA's 1996 assistance strategy focused on employment generation and poverty alleviation. And the draft strategy for 2000 proposes to assist the government in reforming the public sector, developing the private sector, and strengthening the social safety net.

- IDA's support for stabilization has been successful. However, unemployment and poverty remain high, and the social safety net is weak.
- The proposed strategy for assistance in FY00–02 is relevant to Azerbaijan's needs, but could do more to improve the environment for private sector development and to strengthen the social safety net for redundant public employees.

### Background

Azerbaijan has substantial oil and gas reserves, rich mineral deposits, a strong entrepreneurial tradition, an educated labor force, a diversified industrial base, and fertile land. Following independence, the dislocations caused by the necessary transition to a market economy, along with internal conflict, drove down GDP by 66 percent, displaced almost one million people, and consigned 60 percent of the population to poverty. On the other hand, parliamentary elections in 1995 restored political stability.

### World Bank Group Involvement

In 1995, the government, with support from IDA and the IMF, began a comprehensive stabilization and structural

adjustment program. The deficit declined substantially and inflation fell. Trade and prices were liberalized and privatization of farms and small-scale enterprises was virtually completed. But progress in public sector reform and in privatizing large public sector enterprises has been lagging. The economy began to recover in 1996, and growth has been strong, but only in oil-related activities. Unemployment remains high, and it is likely to increase with public sector reform.

IDA's assistance strategy of 1996 focused on generating employment and alleviating poverty, but several projects have been delayed, disbursements have been slow, and three of the eight projects in the portfolio are at risk. Agriculture has not received the timely and generous attention proposed in the CAS.

### COUNTRY

Based on the Country Assistance Evaluation, to be sent to CODE as background information to the discussion of the Country Assistance Strategy scheduled for July 27, 1999.

The draft IDA Strategy for FY00-02 proposes to assist the government in reforming the public sector, promoting private sector development, and improving social protection and services. The proposed lending and economic and sector work program focuses appropriately on poverty alleviation, employment creation, and agricultural growth. The discussion emphasizes public sector and governance reforms, which should also result in improved prospects for growth and better social services. The Bank Group could also do more to improve the environment for private sector development and to strengthen the social safety net for those made redundant as the public sector is restructured and privatized.

## **Interaction with Management and Government**

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This Country Assistance Evaluation has been discussed with the Region, but it has not been shared with the Azerbaijan authorities. The Region agrees with the general thrust of the CAE, but does not agree that past IDA strategy deviated from the original plan, nor that agriculture was given insufficient support. The Region also noted the substantial work planned to support private sector development.

