

World Bank – Azerbaijan Partnership Program Snapshot



October 2012

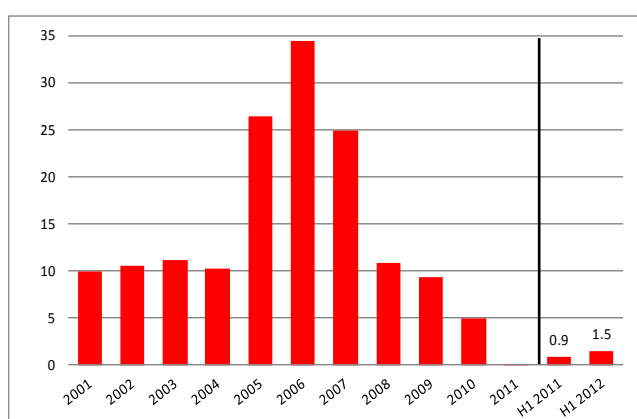


RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

Overall Growth

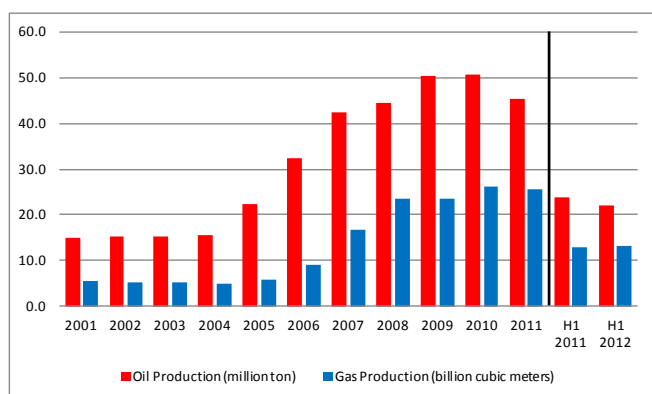
Azerbaijan's economy recovered marginally in the first half of 2012 and grew by 1.5 percent year-on-year. Growth was mainly driven by the non-oil sector, while production of oil and natural gas declined by another 6.4 percent in the first half of 2012, as a result of continued maintenance work at the main Azeri-Chirag-Guneshli oil fields. Given additional technical maintenance requirements, oil production is expected to continue at the current lower levels until 2020.

Figure 1: Growth recovered marginally in H1 2012
(annual percent change)



Source: AzSTAT.

Figure 2: Oil production declined further in H1 2012 (in millions of tons and billions cubic meters)



Source: AzSTAT.

Even though gas production is expected to grow by 2020, it will not compensate for the decline in oil. The potential of the oil sector has been reached for the current level of drilling, and oil production is expected to decline from 2020 onwards unless other fields are discovered or new extraction methods are implemented. While new natural gas fields are expected to come on stream, they are unlikely to replace the rates of growth seen in the oil sector. In any case, oil and natural gas

production do not provide the employment the country needs. Hence, to sustain growth and provide employment opportunities for the population, Azerbaijan will need to find new sustainable sources of export-led growth in the non-oil sector.

The non-oil sector grew by 11.3 percent in the first half of 2012, mainly driven by a large public investment program financed via earlier receipts from oil sales. Domestic demand boosted by high public spending led to strong growth in construction and domestic trade. The construction sector grew 29.5 percent in the first half of 2011 year-on-year after increasing 20 percent in 2011. Agriculture, the largest employer in the country and a significant potential source of exports, rebounded strongly after damage due to floods in 2010. It posted strong growth in the first half of 2012, mainly driven by increased crop production and livestock.

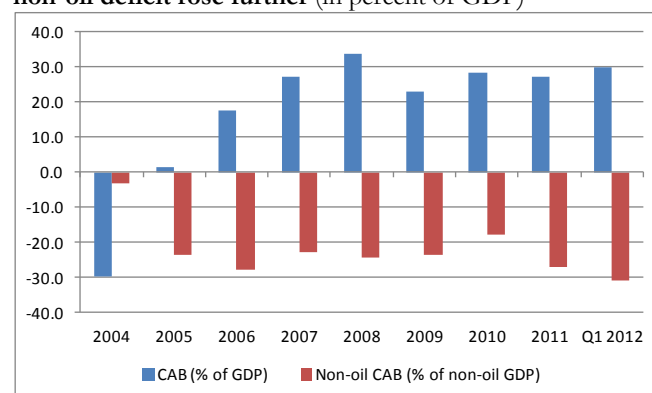
Table 1: Gross Domestic Product, 2010–2012
(Annual percent change)

	2010	2011	H1 2012
Gross Domestic Product	5	0.1	1.5
Oil GDP	7.9	-9.3	-6.4
Non-Oil GDP	1.8	9.4	11.3
Industry	2.1	-8.2	-5.4
Mining and Quarrying	1.4	-10.2	-6.7
Manufacturing	6.8	7.4	8.0
Production and Distribution of Electricity, Gas and Water	6.2	11.1	4.3
Water and Waste Processing	-1.9	12.0	4.8
Agriculture	-2.2	5.8	10.4
Construction	20.3	20.0	29.5
Services	7.2	6.5	6.3
Trade	8.8	10.2	9.2
Transportation	4.3	-0.8	2.2
Hotels and Restaurants	16.3	22.6	19.4
Communication	29.7	11.8	17.9
Social and Other Services	3.9	5.7	3.5
Net Taxes on Products and Imports	6.0	8.2	9.8

Source: AzSTAT

External Sector

Figure 3: The Current account surplus rose even as the non-oil deficit rose further (in percent of GDP)



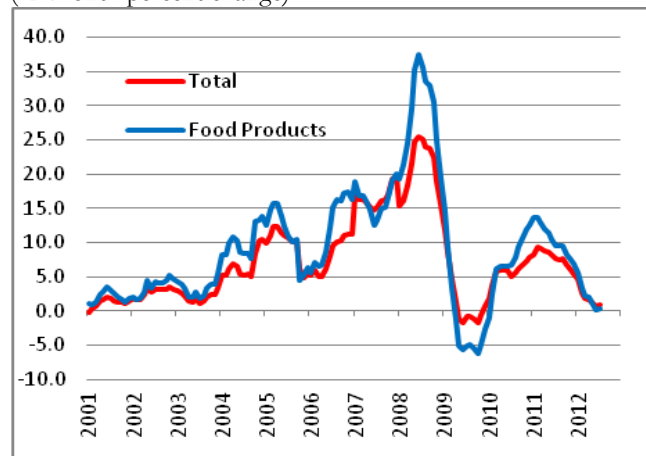
Source: CBAR.

The current account surplus increased from 27 percent of GDP in 2011 to 30 percent in the first quarter of 2012, supported by oil prices. Despite the fragile global recovery, oil prices have shown an upward trend, with the weighted average crude price rising from US\$79 in 2010 to US\$115 in the first half of 2012. However, the non-oil current account deficit continued to worsen, as a result of increased imports by the Government. It rose from 27 percent in 2011 to 31 percent in the first quarter of 2012.

Prices and Exchange Rate

Inflation eased to 2.1 percent year-on-year in the first half of 2012 because of a decline in food and commodity prices. Given the large weight of food prices in the consumer price basket, overall inflation has tracked food inflation during the last decade. The recent decline is in contrast to the surge in 12-month consumer prices to 22 percent in early 2008 on the back of a 40 percent rise in food prices. This year, despite the global rise in food prices, domestic prices for food rose by only 2.4 percent.

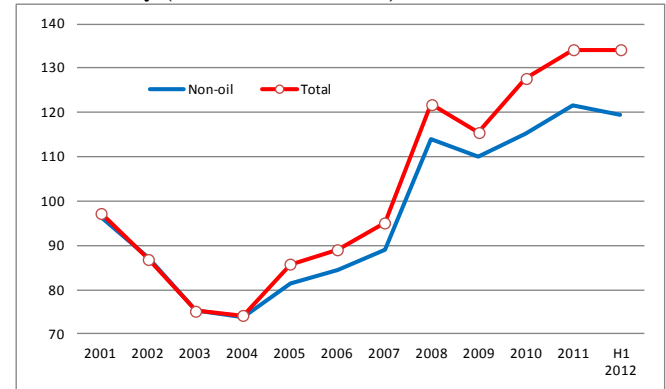
Figure 4: Inflation was driven by food prices
(12-month percent change)



Source: AzSTAT.

With a *de facto* stabilized nominal exchange rate and moderation in inflation, the first of 2012 witnessed lower real exchange rate appreciation. However, with continued public spending increases and recovery in credit growth, real appreciation pressures are likely to continue. Real exchange rate appreciation will have to be offset by productivity growth if the Government's objective of achieving non-oil export-led growth is to be met.

Figure 5: The real effective exchange rate appreciated substantially (December 2000=100)

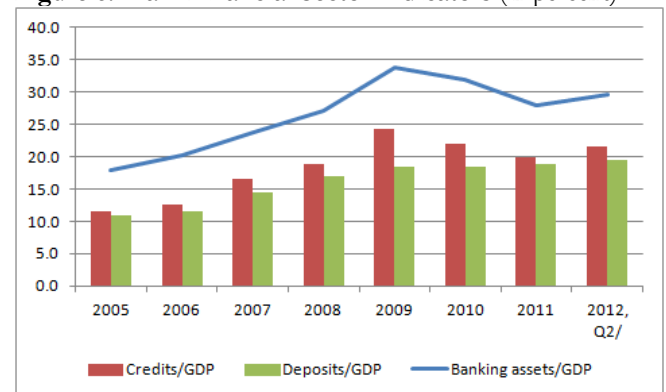


Sources: CBAR.

Financial Sector

The main vulnerability in the banking sector continues to be the chronic underperformance of the publicly owned International Bank of Azerbaijan (IBA), which holds almost 40 percent of total banking assets. The concentration and quality of its assets and inadequate loan loss provisions remain a serious concern, as is its dependence on public funding. For the banking system as a whole, the ratio of loans to deposits deteriorated to 151.8 percent in the first half of 2012 from slightly over 100 percent in 2011, indicating reduced liquidity.

Figure 6: Main Financial Sector Indicators (in percent)



Sources: AzSTAT and CBAR.

Nonperforming loans (NPLs) reached a decade-long peak, as banks continued to recognize problem loans (which were earlier restructured at submarket terms) as NPLs. NPLs reached 12.5 percent in June 2012 compared to 6.4 percent at the end of 2011. NPLs could increase further in the near term, owing to slow growth and the migration of overdue loans to higher risk categories.

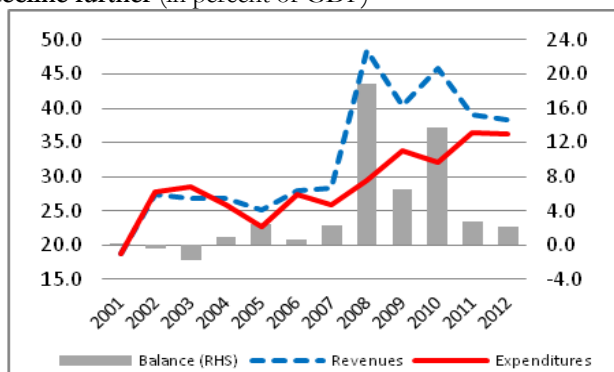
Loan loss provisions decreased during the first half of 2012. Provisions remain low by historical and regional

standards and provide only about 55 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, current provisioning levels need to be increased further to help clean banks' balance sheets. In the interim (or until such actions are taken), profitability and thus capital are expected to remain under pressure.

Fiscal Developments

Smaller oil revenues are likely to reduce the consolidated budget surplus to 2.1 percent of GDP in 2012 from 2.7 percent in 2011. Government spending will not contribute to the decline in the surplus because expenditures are expected to be maintained at 2011 levels.

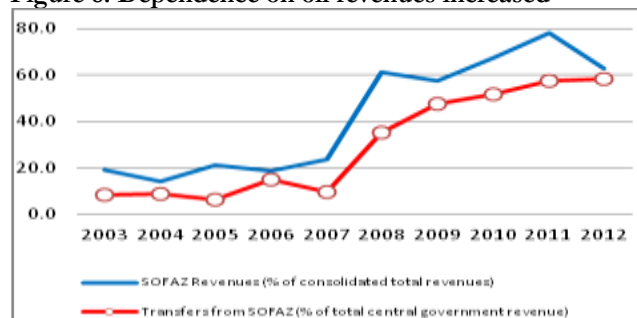
Figure 7: The consolidated budget surplus is expected to decline further (in percent of GDP)



Sources: AzSTAT and Ministry of Finance.

Consolidated government revenues, primarily driven by oil revenues, are estimated at 38.4 percent of GDP in 2012. This represents a further decline from 40 percent of GDP in 2011. Transfers from the State Oil Fund (SOFAZ) to the central government budget rose from less than 10 percent of central government revenues in 2007 to more than 57 percent in 2011, and they are expected to reach 58.1 percent in 2012.

Figure 8: Dependence on oil revenues increased



Sources: Ministry of Finance and State Oil Fund.

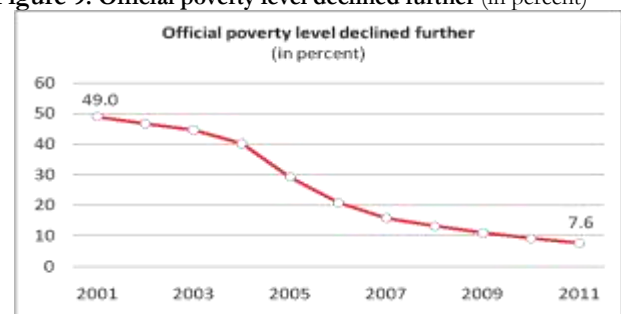
Government expenditures are expected to remain at 2011 levels. As a result of high public investment, spending

rose to 36.4 percent of GDP in 2011 from 32.1 percent in 2010. Public spending is expected to be sustained at 36.2 percent of GDP in 2012. Government investment spending is primarily focused on large projects to spur growth. However, such projects are often not subject to rigorous cost-benefit analysis. As a result, there are risks that projects with inadequate or even negative social returns may be undertaken at the expense of viable alternatives.

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 the 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.

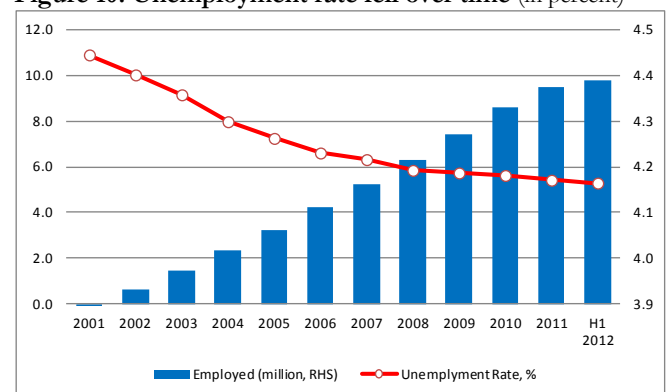
Figure 9: Official poverty level declined further (in percent)



Source: AzSTAT.

Compared with last year, the first half of 2012 did not witness any changes in the unemployment rate. There has been a steady decline in unemployment from 11 percent in 2001 to 5.3 percent currently. 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 important policy objective.

Figure 10: Unemployment rate fell over time (in percent)



Source: AzSTAT.

Azerbaijan has taken a notable step in reforming its social safety nets by introducing a Targeted Social Assistance (TSA) program 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 declined during 2009–11, and the latest data indicate 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 the 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 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., the introduction of the TSA) to the “second generation,” which will aim to develop a broader set of social services that could address the root causes of poverty. These services would then be linked to the provision of assistance to ensure that poor and vulnerable households eventually graduate from poverty and from dependency on social transfers.

Social Insurance and Social Protection

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

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 for social assistance, the modernization of business processes and employment services, the reorganization of the country’s disability services, and modern occupational standards with relevant training standards and programs that can help the country’s human resources to be more competitive. The improved access to and better quality of 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 the years 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 and higher work inactivity rates than the nondisplaced.



The Government of Azerbaijan is committed to promoting the economic opportunities and livelihoods of IDPs, which is critical to their welfare and sustainable development. A comprehensive and well-resourced set of assistance programs funded by the state as well as the donor community aims to protect and support 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 and housing conditions.

The World Bank supports the IDPs in Azerbaijan through the *IDPs Living Standards and Livelihood Project*. The project focuses on the improvement of both the physical and social infrastructure of this most vulnerable group of the country’s population and

promotes the development of more economic opportunities for them.

Health

With regard to the major objective of improving health outcomes, Azerbaijan has made the most progress on addressing maternal and child health.

There are now fewer than 40 maternal deaths per year. Infant mortality has declined since 2000, although more recently, the trend has been more flat. Future progress on this indicator will increasingly require improvement in neonatal care (the first 28 days), which will entail some hospital investments. It should be noted, however, that there is some uncertainty around the actual level of maternal and infant mortality rates in Azerbaijan, according to Demography and Health Survey of 2009 (DHS 2009). Nevertheless, although maternal and child health indicators remain below international standards, the trend of gradual improvement is beyond doubt. Life expectancy in Azerbaijan was not far behind that in Western Europe in the 1970s, but since that time, it has improved only slightly and is now falling behind. Responsibility for declining life expectancy falls largely on the high levels of noncommunicable disease (cardiovascular and malignant neoplasms, diseases that international experience suggests will require increased medical care and are likely to increase health expenditures).

The Government continues its effort to optimize its health care delivery system to positively impact health outcomes. It has made substantial progress with the rationalization of public health facilities and health care staff, developing treatment protocols, training personnel, and introducing family doctors and a licensing system for health professionals. However, the impacts of these efforts on health outcomes have yet to materialize, though these processes do take time to see results and need long-term commitment and investments. The *State Program on Maternal and Child Health* established a priority on vaccinations and better prenatal care. The *Electronic Health Card* program is being implemented to better coordinate the flow of health information between patients and doctors. The Government's strategy for health financing and insurance is currently pending, awaiting political decisions regarding the governance of the health funds. Improvements are also being made to health care facilities with the construction of new regional hospitals and the upgrading of rural health centers with a focus on strengthening primary health care. To ensure the quality of medical services, the country has taken the lead in introducing the certification of health specialists.

Total health spending in Azerbaijan has risen sharply in recent years. Expenditures roughly doubled between 2007 and 2011, from manat 274 million in 2007 to manat 540 million in 2011 (1 US\$ = 0.7866 manats). In relative terms, the share allocated via the Ministry of Health has increased more rapidly compared to local/district allocations. The rising health budget has of course taken place in a context of a rapidly growing economy. Comparing internationally, health spending as a share of GDP is low in Azerbaijan, despite the increases. As a result, out-of-pocket spending, which is highly unequal, is relatively high at about 70 percent of total health expenditures. High out-of-pocket expenditures on health may cause households to fall below the poverty line. Recent analysis of the 2011 household survey estimates an additional 10 percent of Azeri households were poor as a result of out-of-pocket spending for health.



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, and the successful implementation has led to a national acceptance and implementation of the approach. Along with construction of new medical facilities and the renovation of existing primary care facilities, the project supports a number of activities that will help build and strengthen the professional capacity of medical personnel, improve under- and postgraduate medical education, and train primary health care physicians and nurses in family medicine. Discussions are ongoing to extend and expand the current project.

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. Primary enrollments are comparable to the level of high-income countries and

indicate wide access to basic education. However, enrollments in preschool and higher education still remain low. In addition, the quality of educational outcomes at all levels shows scope for improvement. As part of the ongoing work on improving quality, the Ministry of Education has introduced national assessments, a new curriculum in selected grades that will be implemented in all grades over the next few years, and a nation-wide, in-service teacher training program to support the curriculum rollout.



Education expenditures in 2011 were budgeted at manat 1.4 billion compared to manat 1.2 billion in 2010. However, education's share in total spending decreased to 8.8 percent in 2011, as compared to 10 percent in 2010.

In July 2011, President Ilham Aliyev signed an order to prepare a National Education Development Strategy (2011–2021). To that end, a State Commission as well as a Technical Working Group were established, the latter of which has been engaged in an intensive effort to produce a draft strategy. The process is now well underway, and Azerbaijan is poised to embark on a reform path that would enable it to address issues of content, relevance, quality, management, and equity over the next decade.

One of the most important elements to be addressed in the overall education reform is tertiary education, given its importance to social and economic development. In 2005, Azerbaijan joined the Bologna Process, a European higher education reform initiative that promotes the comparability of degree systems, academic mobility, recognition, quality assurance, and a qualifications framework. However, Azerbaijan has the second-lowest participation in tertiary education among the Commonwealth of Independent States (CIS) countries at 19 percent, and its tertiary education system is not producing the skills needed to support a competitive 21st-century economy.

With regard to higher education in particular, while the number of applicants to university 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 imposition of an admissions quota on both public and private higher education institutions, and on specific programs and disciplines. The Ministry of Finance initiated a financing reform in 2010 that introduced a per student funding mechanism; under the new scheme, universities receive a direct transfer of funds from the Ministry of Finance based on the number of merit-based, state-funded students enrolled for a given year. The most notable expected advantage of this so-called voucher system is to encourage universities to improve quality through enhanced competition. Introducing need-based vouchers for qualified students in disadvantaged situations, in addition to the current merit-based ones, would also help improve access and equity.

If these reforms are combined with enhanced university autonomy, particularly with regard to relaxed student admission quotas, and with curriculum improvements and a strong quality assurance system, universities would have the appropriate incentives for improving their quality and relevance. Moreover, introducing additional performance-based and competitive elements in institutional financing would provide sustainable financing for universities.

The Bank supports the Government's education reform program through investment operations and policy advice. The ongoing *Second Education Sector Development Project* supports reforms in several key areas (preschool, curriculum, and teacher training, among others) that affect general education. In addition, using a Policy and Human Resource Development Fund (PHRD) grant, the Ministry of Education has completed the initial design of a higher education project that could be a basis for the Government's consensus building efforts with regard to higher education reforms. The draft aims to address the most critical issues in higher education, and could become the vehicle for implementing the higher education reforms that emerge from the National Strategy.

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 many in the public believe is widespread.

The Bank is helping the Government with the *Judicial Modernization Project (JMP)* to improve access to, and the efficiency of, judicial services, retrain personnel, and make information 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 JMP 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 information and communications technology (ICT) modernization are being implemented throughout the judicial system. New courthouses are also being constructed and an Automated Registration System was installed for the 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 has now declined to below 4 percent, the agro-food sector is the second largest exporter after oil and gas, with a contribution to total export 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 (1991–95), 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 the genetics of livestock, support private sector activity in meat and milk processing, expand financing, and create a research center for agriculture. The irrigation subsector 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 multiphase Adaptable Programmatic Loan aims at improving Azerbaijan's farming areas to higher levels of productivity under a new system in which 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 stimulate the 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, help producers and processors get access to markets, and enhance product quality.

The Bank is engaged in strengthening the irrigation sector through the *Water Users Association Development Support Project*, which started implementation in early 2012. This project aims to improve the effectiveness and financial viability of irrigation water distribution and management through the capacity strengthening of Water User Associations (WUAs) and the rehabilitation of the 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 facilities capable of meeting the needs of its rapidly growing economy. The length and coverage of Azerbaijan's road network provides the 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. Recent road surveys have demonstrated that only 63 percent of highways, 27 percent of secondary roads, and 11 percent of local roads are in good or fair condition. In other words, a very significant share of the total network requires expensive rehabilitation work. Road traffic safety also needs substantial improvements. In 2011, there were about 9.7 fatalities per 10,000 vehicles, about five times the rate of the best practice countries.

In 2011, transport accounted for about 5 percent of GDP. Road transport dominates, accounting for 54 percent of freight in 2011. Most passenger transport in 2011 is by road, which accounts for 87.4 percent of passenger transportation, followed by metro (12.2 percent). Railways have a higher modal share in tons per kilometer terms, but road transport hauls greater total tonnage: 109.8 million tons versus 22.1 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 in 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 kilometers of 121 roads, comprising 3,570 kilometers of 63 state roads and 5,928 kilometers 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 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 a 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, almost everywhere in the country, the piped water supply is unreliable and often available fewer than 12 hours per day. Centralized piped water supply systems are rare in rural areas, where less than 33 percent of the population has access to a 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 to 35 percent; ii) introducing several major institutional changes, including the 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 increase tariffs.

The Bank's investment program in the sector follows the Government's Water Sector Strategy for 2006–2015. The strategy involved development 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* in the amount of US\$490 million, of

which US\$30 million is on Institutional Development Association (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; the 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 and sanitation sector of Azerbaijan are ADB, the Germany Development Bank (KfW), the Japanese International Cooperation Agency (JICA), the Inter-American Development Bank (IDB), and Swiss Economic Cooperation and Development (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. The 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 the positive developments, however, 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 the new Government's massive investment 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 330 grams per kilowatt hour (g/kWh) (at equivalent standard fuel) in 2006 to 291 g/kWh in 2009. The 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 shifted to 97 percent gas and only 3 percent oil in 2009. It is currently 100 percent gas combustion.

Implementation of the World Bank-financed Power Transmission Project has recently been completed.

The project helped to technically and institutionally strengthen the generation and transmission utility in order to improve the efficiency of the power transmission operation in Azerbaijan. A new Supervisory Control and Data Acquisition (SCADA) system upgraded the electricity dispatch system in the country, and provided technical assistance for improving the management systems of Azerenerji, the state power generation and transmission company. **The Bank is launching a new major study on the development of alternative/renewable energy sources in Azerbaijan.**

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 44 projects in different sectors totaling over US\$3.13 billion of IDA credits and grants and IBRD loans. Some three-quarters of World Bank lending has historically been provided to two main areas: transport (48 percent) and water and sanitation sectors (22 percent). Other sectors that received substantial financing are agriculture and rural development (9 percent), public administration and law, social development and social protection (5 percent), and energy and mining (3 percent).

Currently, the transport sector dominates World Bank financing, receiving over 61 percent of investment funds, followed by the water sector (22 percent), agriculture and rural development (5 percent), and public sector

governance, social development, social protection, and urban development (8 percent).

Currently the Bank portfolio consists of 17 active projects whose total commitment amount reaches US\$2,264 million, of which about 66 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 disbursement ratio for FY12 was 13.8; it was 8.6 percent as of September 17, 2012, which is above the Europe and Central Asia (ECA) region (5.6 percent) and Bank (3.2 percent) averages.

The World Bank Country Partnership Strategy (CPS) for Azerbaijan for FY11–14 was discussed by the Board in October 2010 and focuses on two key objectives: strengthening the non-oil economy, primarily through an improved business environment, better infrastructure, and improved agricultural productivity; and improving the effectiveness of social and municipal services, including health, education, social protection, and water supply and sanitation.

The CPS Progress Report launched in 2012 will assess CPS implementation thus far and refine the World Bank program for the years 2013–14.

In the first two years, lending totaled about US\$175.4 million to support projects for developing Water User Associations, capital markets, the judicial sector, and IDPs. 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 over 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 FY10–12. These included the Living Conditions Assessment Report, the Consumer Protection and Financial Literacy Report, the Analysis of Environmental Investment Priorities and Building Assessment, and Promoting Self Reliance of Internally Displaced People in Azerbaijan. Four policy notes on economic diversification and growth were 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 development of non-oil exports, market 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 multiyear fee-based services (FBS) program that will ensure continuous and timely access to high quality policy advice and technical expertise

In addition to IDA/IBRD operations, the Bank's portfolio consists of six active trust fund projects in the amount of US\$7.8 million that support the Bank's ongoing or proposed project preparation and implementation. These funds support Quality Management in the road sector, a Higher Education project, a Corporate and Public Sector Accountability Project, and National Water Supply and Sanitation.

The Bank continues to have close partnerships with the European Union (EU), the U.S. Agency for International Development (USAID), KfW, UN agencies, EBRD, and ADB with respect to coordinated assistance in various sectors.

AZERBAIJAN: RAILWAY TRADE AND TRANSPORT FACILITATION PROJECT

Updated October 2012

Key Facts:

Approved: March 27, 2008

Effective: March 15, 2010

Closing: September 30, 2013

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	450	66	384
Government	345		
Total Project Cost	795		

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	450	66	384

*as of September 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 for railway transportation services; (ii) satisfy the security demands of the state; (iii) increase the transit potential of the country; (iv) improve the quality of railway services; and (v) support the social and economic development of the country by decreasing the costs of passengers and cargo transportation, all while (vi) progressively attaining financial self-sustainability for freight services.

The state program’s key priorities are: a) the institutional modernization of Azerbaijan Railways CJSC, and b) capital investments in rail infrastructure and rolling stock to allow it to maintain railway capacity and provide a sound basis for the future expansion of railway 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 presidential decree of July 21, 2009, the Azerbaijan State Railway (ADDY) has been transformed into the “Azerbaijan Railways” Closed Joint Stock Company, later transforming into a line of business structures, with departments for Infrastructure, Passenger Services, Freight Services, and Construction;
- State Program for the Development of Azerbaijan Railways 2010–2014 was endorsed by the president on July 6, 2010;
- The International Financial Reporting Standards (IFRS)-based new chart of accounts and accounting procedures manual have been prepared and conversion of manually maintained accounts to IFRS is about to start. The inventory and revaluation of assets is underway and the computerized system for IFRS implementation is being procured.
- ADDY’s capacity to prevent and respond to oil spills has been substantially strengthened. Technical assistance helped ADDY to prepare an Oil Spill Response Plan, and equipment for the response trains has been purchased under the project;
- The power conversion contract has been signed and the procurement of other major investment components (signaling and locomotives) is underway with plans to contract all by end of the 2012 calendar year. Track renewal is underway, with the first 100 kilometers 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 the entire project implementation.

AZERBAIJAN: ADDITIONAL FINANCING TO THE JUDICIAL MODERNIZATION PROJECT

Updated October 2012

Key Facts:

Approved: June 7, 2011

Effective: March 31, 2012

Closing: June 30, 2013

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA	21.6
Japan PHRD	3
Government	11
Additional Financing:	
IBRD	24.2
IDA	30.8
Government	28.3
Total Project Cost	118.9



World Bank Disbursement, million US Dollars:*

Financier	Financing	Disbursed	Undisbursed
IDA	21.6	21.8	0.0
Additional Financing:			
IBRD	24.2	0.0	24.2
IDA	30.8	23.1	9

*as of September 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 a 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, the provision of information to citizens, and the system's ability to handle future demand.

Results to Date:

- 157 judges have been appointed using new appointment procedures for which the Judicial Modernization Project (JMP) has provided new equipment and software to the Judicial-Legal Council.
- About 700 Ministry of Justice (MOJ) staff has been trained in basic IT courses.
- Security and conference equipment have been installed at the Constitutional Court. Information and communications 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

AZERBAIJAN: CAPITAL MARKETS MODERNIZATION PROJECT

Updated October 2012

Key Facts:

Approved: March 17, 2011

Effective: November 7, 2011

Closing: December 31, 2015

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	12.0	0.4800	11.52

* as of September 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) building capacity at the State Committee for Securities and developing public awareness activities.

Results achieved:

- State Program on development of Securities market in 2011–2020 was endorsed by the president on May 16, 2011.
- SCS has submitted the draft of the new *Law on Securities* for inter-government consultations. This draft law is recognized as an important milestone in the State Program on the Development of the Securities Market of the Republic of Azerbaijan in 2011–2020. SCS has successfully completed all steps in the tender process for selecting the main consultancy firm and the contract has been awarded. This single main consultancy assignment of US\$8.4 million is aimed at providing comprehensive support to reforming and modernizing the Azeri capital market. The contract implementation is expected to begin from the first week of September 2012.

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

Key Development Partners include (a) SECO, which 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, which is providing support for improving the capital markets legal framework under the project of Technical Assistance to the Commonwealth of Independent States Program (TACIS); (c) IFC, which supported the drafting of the new Laws on Investment Funds, Covered Bonds, and Amendments to the Civil Code; and (d) IMF, which has been supporting the development of a government securities market under a regional initiative funded by SECO.

AZERBAIJAN: SECOND EDUCATION SECTOR DEVELOPMENT PROJECT

Updated October 2012

Key Facts:

Approved: April 21, 2008

Effective: December 1, 2008

Closing: March 31, 2014

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

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

* as of September 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 (grades 5–9) and complete secondary (grades 10–11) education levels have been developed, widely discussed in media, including Curriculum Portal (www.kurikulum.az), and approved by the decree of the Minister of Education. Implementation of new general secondary education curricula will start this school year in fifth grade. Curriculum sensitization centers have been established in resource schools of 20 city/districts of the country. Around 800 members of these centers have been trained to provide local support to implementation of the new curricula.
- “Regulation of content, implementation of further education and granting relevant education certificate to graduates of domains of further education” was developed and approved by decree of the Cabinet of Ministers. The new Regulation envisages the creation of a competitive environment among state, nongovernmental, and private further education institutions for delivery of in-service teacher training. According to the new Regulation, 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. 18,195 primary school teachers have received such training.
- Effective school improvement methodologies, including library component, has been launched in 11 pilot schools of the project (www.sm11.edu.az). Five 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. A catalogue reflecting the teaching/learning resources has been produced and distributed to all 500 schools to make choices of resources they want to see in their libraries. Based on the school requests from catalogue, the project procured 452 titles of books with total volume of 549,000 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 1,319 parents and 687 students.
- New teacher recruitment procedures have been developed and introduced nationwide since 2010. The new procedures imply recruitment through electronic application and centralized computer-based exams.
- The system of strategic planning across the Ministry of Education and regional departments has been created. New curriculum developed and necessary preparation activities have been implemented for launching “Education Management” master program at the State Pedagogic University. Accreditation department has been established at the Ministry of Education. The project organized study visit to accreditation, evaluation, and inspection agencies of the United Kingdom for the staff of accreditation department.
- The new comprehensive website (www.edu.gov.az) of the Ministry of Education has been launched and is being maintained. The website was a winner of “Milli Net” award as the best “Government Organization Website.” 10 trailers dedicated to education reforms have been developed and broadcast on a Public TV channel. The study visit to relevant agencies in France has been organized for the staff of “Azerbaijan Teacher” newspaper, as well as for other education publicists.

Key Partners: Ministry of Education

Key Development Partners: UNICEF

AZERBAIJAN: REAL ESTATE REGISTRATION PROJECT

Updated October 2012

Key Facts:

Approved: May 21, 2007

Effective: September 17, 2007

Closing: February 28, 2013

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	30	11.3	18.7

*as of September 2012

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



The Project Development Objective is to ensure that 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 in several ways focused on making all the relevant information about the ownership and location of the each of the country's 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 a 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 online. State-owned land and property is included within the recording system so that 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 the 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 communications system to link the system's offices is under construction.
- An information system strategy has been developed and software development of the unified cadastre and registration system is underway.
- Following successful pilot work, plans for generating the first set of new cadastre maps for about 4 million hectares of land are underway.
- 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 its 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), which provides technical assistance and, in the past, some equipment; b) KfW (Germany) and the Government of the **Korean Republic**, which are undertaking survey and cadastral work to improve methodology; and c) **USAID**, which is providing advice and training in property valuation and mass appraisal techniques.

AZERBAIJAN: CORPORATE AND PUBLIC SECTOR ACCOUNTABILITY PROJECT
Updated October 2012

Key Facts:

Approved: March 27, 2008

Effective: December 19, 2008

Closing: December 31, 2013

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IDA	11	2.14	8.46

*as of September 2012.

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

	2008	2009	2010
Assets			
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	2,000
Total current assets	4,000	7,000	10,500
Buildings, property, plant and equipment	10,000	13,000	13,000
Accumulated depreciation	(2,000)	(3,000)	(3,000)
Net property, plant and equipment	8,000	10,000	10,000
Other assets	1,000	1,000	1,500
Goodwill	0	0	0
Discontinued operations	0	0	0
Total Assets	13,000	17,000	23,000
Liabilities and Shareholders' Equity			
Short-term debt and current portion of long-term debt	2,000	3,000	4,000
Accounts payable	1,000	2,000	2,500
Deferred liabilities	500	1,000	1,000
Total current liabilities	3,500	6,000	7,500
Long-term debt	2,000	3,000	3,500
Other long-term liabilities	0	0	0
Deferred income taxes	500	500	500
Total liabilities	6,000	9,500	11,500
Total shareholders' equity	7,000	7,500	11,500
Total liabilities and equity	13,000	17,000	23,000

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

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

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

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

Results achieved:

Establishment of the Azerbaijan Center for Professional Accounting and 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. 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. Currently the project is supporting (a) implementation of unified accounting and financial reporting IT system for budgetary organizations and (b) reform of accounting and audit education practices in the country. The key focus areas for the remaining project period are to ensure that: (1) a reliable accounting and financial reporting system for budgetary organizations is in place, and (2) the National Professional Accounting Qualification is recognized by key employers in Azerbaijan.

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

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

AZERBAIJAN: HIGHWAY II PROJECT

Updated October 2012

Key Facts:

Approved: January 17, 2006

Effective: August 9, 2006

Closing: February 28, 2014

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	200.0	200.0	0.0
1st Additional Financing:			
IBRD	300	156.2	143.8
2nd Additional Financing:			
IBRD	113	64.0	49.0
IDA	62	0.0	63.5

*as of September 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 the stimulation of economic growth, non-oil economic development, and the reduction of poverty. The improvement of the road network has been identified as one of the priorities for production diversification. Meanwhile, the poor condition of the transport infrastructure is hindering the growth of the non-oil economy. Prior to the oil boom, infrastructure investment rates in Azerbaijan were low and the country faced an investment deficit. As a result, most infrastructure is beyond its useful lifespan and overall infrastructure quality and reliability are generally poor.

The Project Development Objective is to reduce road transport costs and improve access, transit, and road safety within Azerbaijan's East-West and North-South corridors, through upgrading some sections of the Alat-Masalli road of the Baku-Iran highway (M3) and rehabilitating the Baku Shamakhi (M4) road, the Kurdamir-Ujar Section of Baku-Gazakh Road (M2), 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 the Ministry of Transport and National Road Administration (Azeryolservis JSC), including technical assistance to improve road maintenance and the project implementation capacity of Azeryolservis JSC.

Results achieved:

- Construction of 1B section (22 kilometers) of Alat-Masalli road is completed
- Construction of 1A section (9 kilometers) of Alat-Masalli road is completed
- Construction of 1B section (22 kilometers) of Alat-Masalli road is completed
- Construction of Kurdamir-Ujar section of M2 highway is completed
- About 65 percent of works are implemented at Tagiyev-Sahil road
- About 20 percent and 26 percent of works are implemented at sections 1C and 2 of Alat-Masalli road, respectively
- About 52 percent and 23 percent of works are implemented at Lots 1 and 2 of M6 Hajigabul-Bahramtapa road, respectively
- 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 ADB and EBRD, which finance other sections of the Azerbaijan transport corridors and with which the Bank team coordinates on project activities and sector issues.

AZERBAIJAN: HIGHWAY III PROJECT

Updated October 2012

Key Facts:

Approved: May 25, 2010

Effective: November 08, 2010

Closing: March 31, 2015

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	171.6
IDA	70.0
Government	114.55
Total Project Cost	356.15

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	171.6	5.6	166.0
IDA	70.0	0.0	71.4

*as of September 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 the reduction of poverty. The improvement of the road network has been identified as one of the priorities for production diversification. Meanwhile, the poor condition of the transport infrastructure is hindering the growth of the non-oil economy. Prior to the oil boom, infrastructure investment rates in Azerbaijan were low and the country faced an investment deficit. As a result, most infrastructure is beyond its useful lifespan and overall infrastructure quality and reliability are generally poor.

The Project Development Objective is to 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 100-kilometer section of existing two lanes of the 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 8.3 percent of works have been implemented at section 15-45 kilometers of M4 Baku-Shamakhi road
- Designs have been prepared and procurement started for sections 45-67.5 kilometers and 67.5-91 kilometers of M4 Baku-Shamakhi road
- Implementation of major institutional development activity on motorway operations and management has started

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, which finance other sections of the Azerbaijan transport corridors and with which the Bank team coordinates closely on project activities and sector issues.

AZERBAIJAN: NATIONAL WATER SUPPLY AND SANITATION PROJECT

Updated October 2012

Key Facts:

Approved: June 14, 2007

Effective: March 14, 2008

Closing: February 28, 2013

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	207
Government	80
Total Project Cost	287

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	207	49	158

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

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

Results achieved:

- Preparatory work (feasibility and field studies, Environmental Impact Assessment [EIAs]) for all rayons has been completed and approved;
- The project has been restructured to reduce the scope of work from 22 rayons to four due to higher than anticipated bid prices. As a result, the project will cover the full rehabilitation of water supply (WS) and WWS systems in Shamakhi, Gabala, Saatli, and Sabirabad rayons. The remaining rayons will be financed from the state budget and the IDB;
- The work at Shamakhi and Gabala water intakes has been completed. The work on the rehabilitation of networks and Waste Water Treatment Plants in Shamakhi and Gabala has been contracted and is under implementation;
- The work for rehabilitation of water supply and sanitation networks in Saatli and Sabirabad rayons has been contracted and is underway;
- The action Plan for IFRS introduction in Azersu has been prepared and is under implementation;
- The key consultancy services for the preparation of the Greater Baku Regional Development Plan are contracted and all inception and intermediary reports have been prepared, with a plan to complete the entire assignment by end of March 2013.

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.

AZERBAIJAN: SECOND NATIONAL WATER SUPPLY AND SANITATION PROJECT

Updated October 2012

Key Facts:

Approved: May 20, 2008

Effective: July 13, 2009

Closing: February 28, 2013

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	230	88.3	141.7
IDA	30	9.2	19.5

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

The Project Development Objective is to improve the availability, quality, reliability, and sustainability of 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 work (feasibility and field studies, Environmental Impact Assessment [EIAs]) for all rayons has been completed and approved;
- The project went through second restructuring to reduce the scope of work from 20 rayons to eight to reflect the cost overrun due to higher bid prices. As a result, the project will cover the full rehabilitation of water supply (WS) 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 all eight rayons have been contracted and are under implementations;
- The works in Siyazan and Shabran rayons are under completion.

Key Partners:

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

AZERBAIJAN: INTEGRATED SOLID WASTE MANAGEMENT PROJECT

Updated October 2012

Key Facts:

Approved: June 17, 2008

Effective: July 31, 2009

Closing: September 30, 2013

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD	29.5
Government	12
Total Project Cost	41.5

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IBRD	29.5	7.8	21.7

*as of September 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 the land needed for the rapid economic and demographic growth of this essential urban area. Poorly managed solid waste is a highly visible environmental issue. The smoke from the Balakhani landfill, the main dumpsite for greater Baku, can be seen from far away. Outside the central city, informal dumpsites are numerous, especially in the new settlements where service coverage and quality are inadequate. Both Balakhani and the informal dumpsites pose health risks to residents. The rapid population growth across the peninsula exacerbates the solid waste problems. The primary challenges for solid waste management, and collection in particular, are: a) 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) the build-up 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 was 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.);
- The landfill management practices in the Greater Baku area, including at the main Balakhani landfill, have been dramatically improved (i.e., waste is not burning, illegal waste pickers are now employed by Government, waste is compacted and covered by soil, etc.);
- The Balakhani landfill has been fenced and equipped with necessary equipment to ensure proper waste management;
- The Greater Baku Solid Waste Management Strategy has been prepared under the project;
- The preparation of National Solid Waste Management (SWM) Strategy is under completion.

Key Partners:

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

AZERBAIJAN: IDP LIVING STANDARDS AND LIVELIHOODS PROJECT
Updated October 2012

Key Facts:

Approved: October 27, 2011

Effective: February 9, 2012

Closing: December 31, 2015

Financing from all cofinanciers, million US Dollars:

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

World Bank Disbursement, million US Dollars:*

<i>Financier</i>	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD	50	3.6	46.4

*as of September 2012.

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



Background. In the period 1988–93, the Armenia-Azerbaijan Nagorno-Karabakh conflict caused the displacement of about 600,000 Internally Displaced Persons (IDPs) from the parts of Azerbaijan territory occupied by Armenian armed forces. The large-scale ongoing government investments made under this resettlement program have contributed to resolving some of the problems of IDPs living in the harshest conditions. However, Government efforts have not been able to address the critical need for a continuing improvement in living conditions for the approximately 400,000 most needy IDPs scattered in small communities throughout the country. 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 the 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 microprojects to improve local services and infrastructure for IDPs, (ii) the full-scale renovation of 95 collective centers to improve the housing conditions of IDPs, (iii) the provision of vocational training for 1,400 young IDPs, including training, support, and resources to start small-scale businesses, (iv) support for the establishment of 250 community based microenterprises, and (v) the extension of more than 1,500 microcredit loans.

Results achieved:

- Contracts on 27 microprojects have been signed, out of which 10 are completed
- Appraisal of over 40 microprojects has been completed
- Design work for rehabilitation of eight dormitories is ongoing
- Loan agreements have been signed with five credit unions, and US\$2 million distributed under microcredit financing component
- Procurement for selection of consulting firms under Income Generation and Youth Support Programs has started

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

AZERBAIJAN: SECOND RURAL INVESTMENT PROJECT (AzRIP)

Updated October 2012

Key Facts:

Approved: July 5, 2012

Effective:

Closing date: March 30, 2017

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD	30.00
Government	20.00
Beneficiaries	3.60
Total Project Cost	53.60

World Bank Disbursements, million US Dollars*:

	<i>Financing</i>	<i>Disbursed</i>	<i>Undisbursed*</i>
IBRD	30	0	30

* As of September 2012.

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



The Project Development Objective is to improve access to and use of community-driven rural infrastructure and expand economic activities for rural households, to be achieved through: (i) financing demand-driven, community-identified priority rural infrastructure investments; (ii) strengthening the capacity of communities in partnership with municipalities and local support institutions to effectively identify, plan, and implement their development priorities; and (iii) building opportunities for rural employment and livelihood support services.

The Project. The project is a multisector investment loan that will scale up the previous AzRIP project both geographically, into the currently unserved rayons, and vertically, through the inclusion of second generation institutional support in AzRIP active project areas. It is expected that in total, 600 eligible communities in 56 rayons will be serviced under AzRIP-2, and an estimated 1,500,000 community members are expected to benefit from infrastructure investments.

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

Expected Results:

Achievement of the Development Objective will be assessed through the increase in household access to and use of rural infrastructure; the change in household income of beneficiaries; and the change in access to markets through improved rural infrastructure.

Key Partners:

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

AZERBAIJAN: PUBLIC INVESTMENT CAPACITY BUILDING PROJECT (PICBP)

Updated October 2012

Key Dates:

Approved: June 24, 2009

Effective: November 3, 2009

Closing: March 31, 2014

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA	8
Government	2
Total Project Cost	10

World Bank Disbursement, million US Dollars:*

Financier	Financing	Disbursed	Undisbursed
IDA	8	4.61	3.80

* As of September 2012.

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



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

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

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

Results achieved:

- 49 different technical and thematic courses were offered to 80 groups with 1,474 participants from 24 government agencies and academic institutions.
- Training centers have been established at Azerbaijan Architecture and Construction University and State Economic University.
- Existing bachelor's and master's programs on water and waste water management were modernized and a new master's program on solid waste disposal has been launched at the Architecture and Construction University.
- New master's program on project management has been established at the Public Administration Academy and certification course on project management, co-financed by British Petroleum, is being delivered at Khazar University.
- With support of the project, the Tamiz Shahar has developed a Corporate Performance System to improve reporting and decision making.
- The project website is active and populated with information on upcoming and completed training courses and course materials. The website is also used for the tendering process and for reporting on project progress to the public.

Key Partners:

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

AZERBAIJAN: WATER USERS ASSOCIATION DEVELOPMENT SUPPORT PROJECT

Updated October 2012

Key Facts:

Approved: April 26, 2011

Effective: December 21, 2011

Closing: June 30, 2016

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA	76.8
IBRD	3.2
Government	34.3
Total Project Cost	114.3

World Bank Disbursement, million US Dollars:*

	Financing	Disbursed	Undisbursed*
IDA	76.8	4.3	72.5
IBRD	3.2	0.0	3.2

* As of September 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 the potential for competing on internal and external markets. Although 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 subsector. 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 the irrigation management transfer of on-farm I&D systems to water users to enable the technical and financial viability of the systems. The Azerbaijan Amelioration and Irrigation Open Joint Stock Company (AIOJSC), with World Bank financing, successfully implemented the Irrigation Distribution System Management and Improvement Project (IDSMP), which piloted an approach for the capacity building of Water User Associations (WUAs) to take over the management of the on-farm I&D system in combination with the 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 the institutional strengthening and capacity building of AIOJSC and the irrigation sector as a whole; (ii) On-farm Irrigation and Drainage Rehabilitation, which will finance the rehabilitation of on-farm irrigation and drainage systems for eligible WUAs in selected rayons; and (iii) Project Management and Monitoring and Evaluation.

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

- Increase in agricultural productivity (about 15 percent) in at least 80 percent of the rehabilitated areas.
- Improved collection rates by rehabilitated WUAs of at least 80 percent, which meets 80 percent of the required level of on-farm system management, operation, and maintenance.
- Water distribution within 80 percent of the rehabilitated systems closely matches the crops' irrigation water demands. Collection rates by project WUAs of at least 65 percent, which meets 55 percent of the required level of MOM 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.

AZERBAIJAN: HEALTH SECTOR REFORM PROJECT
Updated October 2012

Key Facts:

Approved: June 29, 2006

Effective: December 20, 2006

Closing: December 31, 2012

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	50
Government	28.25
Total Project Cost	78.25
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 September 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, and (ii) enhance equitable access to and quality of essential health care services in the selected districts (Sheki, Ismayilli, Agdash, Gakh, Absheron).

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 five 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 2012.
- Eight primary health care facilities and three village hospitals are being constructed.
- Analysis of health care 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 these 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 work for the piloting of the prototype health management information system (HMIS) at the regional level in the Gakh Central Hospital was completed.

Key counterparts:

Ministry of Health, U.S. Agency for International Development (USAID), World Health Organization (WHO)

AZERBAIJAN: SOCIAL PROTECTION DEVELOPMENT PROJECT

Updated October 2012

Key Facts:

Approved: May 27, 2008

Effective: March 17, 2009

Closing: September 30, 2013

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	26.7
Government	27.9
Total Project Cost	54.6

World Bank Disbursement, million US Dollars:*

Financier	Financing	Disbursed	Undisbursed*
IDA Credit	26.7	6.2	19.1

* As of September 2012.

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



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

Results achieved:

- Professional orientation legislation is currently being 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/SES) of the Ministry of Labor and Social Protection of Population (MLSPP), 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/SES capacity.
- 32 modular training programs (MTPs) were prepared instead of planned 30 modular training programs, in close collaboration with the Ministry of Education; training for 12 trainers was carried out.
- Development of improved occupational standards (OS) in accordance with ISCO88/08 and relevant training standards is in progress; 52 standards for priority occupations in five main sectors of economy (construction, tourism, manufacturing, agriculture, and energy) have been prepared and approved by the Bank, the remaining 148 OSs have been drafted based on international experience, and 80 have been validated with enterprises. Based on other countries' experience, a document on occupational assessment, certification, and training standards to be applied in Azerbaijan has been developed.
- Six Manuals on Improving Employment Services are prepared, 2,000 of each manual printed and distributed to the local employment services for application.
- 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 Inspectorate (SLI) statute; the zero based audit to provide a Training Needs Analysis; the laboratory equipment design and technical specifications for mobile lab equipment; a proposal for a Statement by the Cabinet of Ministers on a national occupational safety and health (OSH) policy, based on the principles of the Azerbaijan Labour Code was developed; the database for workplace information management; a manual for inspectors was developed, including inspection practice, enforcement strategy, and accident investigation; recommendations on the new SLI statute based on a comparison with International Labour Organization (ILO) 84 and 129 and the EU "Common Principles for Labour Inspectorates" were developed; and the development of SLI laboratory design in accordance with international standards is underway

Key Partners: Ministry of Labor and Social Protection of Population, State Social Protection Fund.

Key Development Partners: EU