

**IMPLEMENTATION OF POVERTY REDUCTION STRATEGIES IN THE NIS
DESK STUDY: AZERBAIJAN
JUNE 2004**

Acronyms and Abbreviations

Timeline of the PRSP Process in Azerbaijan

Preface

1. BRIEF OVERVIEW OF THE PRSP PROCESS IN THE COUNTRY

1.1 Brief country background

1.2 The national development planning framework

1.3 The aid regime

2. THE INITIAL PRSP PROCESS AND THE PRSP DOCUMENT

2.1 Start of the process

2.2 Poverty Analysis

2.3 Participation in the process

2.4 Ownership of the process

2.5 Donor support for the process

2.6 The PRSP Document

3. IMPLEMENTATION OF THE PRSP

3.1 Institutional Set-Up and Responsibilities

3.2 Intra-Government Coordination

3.3 Capacity

3.4 Political Commitment

3.5 Consultation with Other Stakeholders

3.6 Donor Support for Implementation

4. CHALLENGES TO IMPLEMENTATION

4.1 Key Implementation Challenges so far

4.2 Potential future challenges

4.3 Assistance needs to address key challenges

5. CONCLUSIONS: RECOMMENDATIONS AND LESSONS LEARNED

5.1 Lessons Learned

5.2 Recommendations

ANNEXES

1. Documents Reviewed

2. Challenges Matrix

3. Azerbaijan Map

ACRONYMS AND ABBREVIATIONS

I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
MED	Ministry of Economic Development
MTEF	Medium Term Expenditure Framework
NIS	Newly Independent States
PRSP	Poverty Reduction Strategy Paper
SPPRED	State Programme on Poverty Reduction and Economic Development
SSN	Sector Strategy Note
SWG	Sector Working Groups
THM	Town Hall Meeting

TIME LINE OF THE PRSP PROCESS IN AZERBAIJAN

Stage in PRSP Process	Date	
Start of PRSP Process: President Instruction 636	March 2	2001
Interim-PRSP	May	2001
JSA of I-PRSP approved by IDA/IMF Boards	June	2001
PRGF approved by IMF Board	July	2001
Full PRSP launched at national conference chaired by the President	October	2002
PRSP approved by Presidential Decree	Feb 20	2003
JSA of PRSP	April 15	2003
World Bank discusses CAS and JSA of PRSP Boards	May 28	2003
Cabinet of Ministers Resolution on SPPRED Institutional Framework	May	2003
Draft PRSP Progress Report	May	2004

**“STATE PROGRAMME ON POVERTY REDUCTION AND ECONOMIC GROWTH
(SPPRED)”**

PREFACE

EC-PREP is a programme of research to enhance collaboration between the European Commission and the UK Department for International Development (DfID). Its objective is to enhance the poverty impact of the European Community's development assistance and contribute to achieving the International Development Target of halving the number of people living in extreme poverty by 2015. DFID has assigned £1,750,000 to EC-PREP for research projects which will be funded on a competitive basis. A further £250,000 has been set aside to fund Commissioned Studies. The Studies are designed by DFID or the European Commission and aim to respond to specific and topical issues.

This document has been prepared as an input into the EC-PREP commissioned study "Implementation of Poverty Reduction Strategies in the NIS". PRSPs are being prepared by seven Newly Independent States (NIS) of the former Soviet Union and, of these, five countries have completed full PRSPs and have started implementation. This overall study will identify the key challenges facing NIS governments in implementing full PRSPs and set out recommendations for addressing them. The purpose of the study is to provide useful insights to be used by the EC in the policy dialogue with partner governments in the NIS on PRSPs, and as input for the preparation of the next generation of Indicative Programmes (2007-12) and for the development of Action Programmes from 2004 onwards.

The consulting process involves the preparation of (a) five desk studies - Azerbaijan, Georgia, Tajikistan, Moldova and Uzbekistan – with shorter versions of the latter two that have yet to complete PRSPs; (b) two in-depth case studies (Armenia and the Kyrgyz Republic); (c) a comparative study examining global experience with implementation of PRSPs (d) a synthesis report bringing together the findings, lessons and recommendations from the other reports.

1. INTRODUCTION AND CONTEXT

1.1 BRIEF COUNTRY BACKGROUND

Azerbaijan regained independence following the collapse of the Soviet Union in late 1991 and embarked on a difficult political, economic and social transition. Independence came in the middle of a war with neighbouring Armenia over the territory of Nagorny Karabakh (an enclave in the territory of Azerbaijan) that was to last until a cease-fire was reached in 1994. Approximately 20% of the country is still occupied by Armenian forces and the country has approximately one million Azerbaijani internally displaced persons (IDPs) together with refugees from Armenia and other conflicts in the region. Azerbaijan is now a unitary, secular and democratic presidential republic. The decade since Azerbaijan's independence can be divided into two distinct periods:

1. 1991 to late 1995: This period was characterized by a turbulent political and economic situation associated with the collapse of the Soviet Union and a conflict with Armenia. By the end of 1995, measured GDP stood at only 34 percent of its 1988 value, budgetary deficits increased dramatically and inflation was in triple digits.
2. 1995 to present: characterised by impressive performance in achieving macroeconomic stability and resumption of growth.

While the medium-term economic outlook for Azerbaijan may be favourable it faces significant internal and external risks. It also faces a number of serious challenges, the most important of which are to (a) to preserve macroeconomic stability (b) to manage the oil windfall wisely to improve living conditions of all segments of the population and the poor in particular (it is estimated that 49% of the population is living in poverty) (b) to encourage the development of the non-oil sector to create job opportunities and achieve balanced and sustainable growth (ADB CSP Update)

1.2 THE NATIONAL DEVELOPMENT PLANNING FRAMEWORK

Following the collapse of the Soviet Union in 1992 Azerbaijan soon abandoned the five and ten year plans inherited from the central planning system and has not replaced them with longer-term national planning instruments appropriate to the new economic environment.

Rather the country relied on an ad hoc series of sectoral and thematic plans, often supported and/or designed with external assistance. The main planning instrument is therefore the annual budget that set annual limits on sectoral spending and through which line ministries prepared spending plans. The Law on the Budget System requires preparation of budgets for the forthcoming year as well as for the next three years. A Medium Term Expenditure Framework (MTEF) is therefore developed in addition to the annual budget. Within the MTEF the government also prepares a Public Investment Programme (PIP). The MTEF is a consolidated budget with only two extra-budgetary funds.

1.3 THE AID REGIME IN AZERBAIJAN

Compared to many other Commonwealth of Independent State countries, aid intensity in Azerbaijan is low at less than 3% of the gross domestic product (GDP) in 2000 and the number of international partners is also very small. Among bilateral donors, only Germany and the USA are large. The European Community is also an important donor providing support through Technical Assistance to the Commonwealth of Independent States (TACIS) Programme, the Food Security Programme, and the Exceptional Assistance Programme. Among the international financial institutions (IFIs), the World Bank, IMF, and European Bank for Reconstruction and Development (EBRD) have full representation while the Asian Development Bank (ADB) and Islamic Development Bank do not. Many of the international non-governmental organizations (NGOs) originally came to Azerbaijan for the humanitarian crisis following the Armenia conflict but are trying to reposition themselves to undertake more developmental activities.

2. THE INITIAL PROCESS AND THE PRSP DOCUMENT

2.1 START OF THE PROCESS

The process of preparing the PRSP began in March 2001 with the issuing of Presidential Instruction No. 636 which established the National Commission for the Development of the Programme under the chairmanship of the Prime Minister. As its first act, the Commission established a special Task Force headed by the Minister of Economy to prepare an Interim PRSP (I-PRSP). The I-PRSP was prepared by a team including representatives of 34 government and non-government agencies, led by the Ministry of Economy. Other government institutions, NGOs, and donor partners contributed to the development of the I-PRSP through their participation in a number of international poverty alleviation seminars and a seminars.

In July 2001, the government launched the process of preparing the full PRSP, to be known as the State Programme of Poverty Reduction and Economic Development (SPPRED). To this end, 15 sectoral working groups (SWGs) were formed by the newly-created Ministry of Economic Development (MED) and a PRSP Secretariat was established in the Ministry to support the process. Each SWG, composed of members of different government agencies as well as NGOs, was responsible for developing sectoral strategy notes (SSNs), which ultimately would feed into the SPPRED. The PRSP Secretariat within MED was tasked with the primary responsibility for preparing the Azerbaijan's SPPRED. Its task was to coordinate the work of the SWGs, as well as to facilitate civil society participation and the international donors' contribution to the process.

2.2 POVERTY ANALYSIS

Azerbaijan inherited a statistical system developed for the central planning system of the former-Soviet Union and while progress has been made in re-orienting the system to one more appropriate to a market economy much this is a large task. The JSA of the PRSP noted that while the poverty analysis had improved compared to that in the I-PRSP there was a need to further strengthen capacity to collect and analyse data. Moreover the government needs to ensure that the collection of data on the labour market, education and health follow

internationally acceptable standards. Finally, it notes that the links between the poverty diagnosis, poverty reduction strategy objectives and priority actions needs to be further strengthened.

2.3 PARTICIPATION IN THE PROCESS

To support broad participation by civil society, the SPPRED Secretariat developed a Participation Action Plan which set out a three-stage process based around Sector Working Groups (SWGs) made up of government and non-government officials and specialists. Four roundtables, attended by the SWGs and representatives of different international organisations and foreign embassies, were held in Baku with the aim of discussing the Sectoral Strategy Notes (SSNs) produced by individual SWGs. The most complex part of the action plan concerned the national level participation process, which was to cover comprehensively representatives of civil society, the government, and parliamentarians. A two-pronged approach was taken involving (a) A Public Education and Outreach Programme which involved national researchers using participatory techniques to gain a greater understanding of poverty, the problems facing the poor, and the priority actions needed to address them, and (b) a Town Hall Meetings (THMs) model as a tool to bring the government of Azerbaijan close to its citizenry through open meetings at the local level where key issues related to the PRSP could be discussed and draft versions of the PRSP document could be examined. Five THMs were held in different parts of the country.

2.4 OWNERSHIP OF THE PROCESS

The I-PRSP was an almost totally government owned process while the full PRSP is more nationally owned as a result of the participation process. Earlier studies (for example UNDP 2003) suggest that the commitment of at least part of the government is strong with the new Ministry of Economic Development (MED) having the strongest ownership of the PRSP process. At the time of approval, other Ministries are less clear about their role in the PRSP process, or even the purpose of the PRSP document, and seem less committed to it. It should be noted that the then-President of the Republic was very supportive of the process and indicated this at the national conference held to launch the PRSP on October 25 2002. It should also be noted, however, that a number of the priorities and policies simply reflect existing agreements with the international community and the IFIs in particular such as the

PRGF agreement with the IMF and the Second Structural Adjustment Credit agreed with the World Bank. Government had already made commitments to implement the policies within these agreements.

2.5 DONOR SUPPORT FOR THE PROCESS

Support to the PRSP Secretariat was undertaken by UNDP in effective partnership with a number of donors. This multi-partner approach was effective in supplying the government with the appropriate type of assistance in a coordinated manner and on a timely basis. The partnership strategy also ensured that no single donor was dominant in the PRSP process.

ADB

- TA 3788-AZE Preparation of a Medium-term National Poverty Reduction Strategy \$150,000 approved December 2001
- TA 3664-AZE Capacity Building for Poverty Data Analysis \$150,000 approved June 2001

EU

- The EC Food Security Programme financed a long-term consultant to assist the Secretariat and the costs were taken over by UNDP.

GTZ

- GTZ originally provided financial support to cover some of the operational costs of the Secretariat including staff and communications.

UNDP

- UNDP supported effective communication and provided technical assistance to 14 SWGs and the PRSP Secretariat by providing five computers, financing internet connections, and developing the PRSP Web site.
- UNDP fielded a consultant to prepare a Participation Strategy Paper for the PRSP that reviewed ideas in the I-PRSP, as relating to the SWGs and SNPs, and identified effective ways to manage PRSP development. Both interventions, much appreciated by

government, strengthened the PRSP Secretariat and all owed it to be more effective in producing what was to become a largely home-grown PRSP document.

- In addition, UNDP supported the development of home-grown policies in the area of employment through organizing an employment conference in April 2002.
- Finally, UNDP played an important role in harmonising efforts in support of delaying the deadline for PRSP completion.

USAID

- USAID were additional key partners in the process especially in terms of supporting regional dissemination and discussion of the PRSP (more of this in the next section).

World Bank

- As part of regional support etc Learning Events ECA Forum on Poverty Reduction Strategies 2001 (17 participants from Azerbaijan) and in 2002 in Almaty for CIS-7 (15 participants from Azerbaijan). These exercises were reportedly very useful for stakeholders in the PRSP process from different countries to meet.

2.6 THE PRSP DOCUMENT

The PRSP document followed a standard PRSP format with an analysis of poverty, development of a macro-economic framework, sectoral interventions, the participation process and a final section on monitoring and implementation. A plan of action was attached as was the MTEF indicated the intended linkages between the documents.

While comprehensive, the PRSP does not appear to be a practical document. The role of the PRSP in the overall planning framework is not clear and there is no section setting out the overall implementation strategy. It has been designed to comply with the World Bank and IMF (or in line with their guidelines) rather than for the purposes of more effective development management.

3. IMPLEMENTATION OF THE PRSP

3.1 OVERALL IMPLEMENTATION STRATEGY

As noted in the previous section while the overall implementation strategy is not explicitly set out it is implied that it will be through the MTEF that is attached to the document. This is reinforced in the draft Annual Progress Report where it is stated that:

“One of the principles of SPPRED is that it is not an abstract “wish list” of good intentions, but is linked to the actual expenditure capabilities and potential of the country. For this reason, the strategy includes a Medium-term Expenditure Framework (MTEF). This is also one of the principles of the MDGs; i.e country-specific goals and targets should be backed up by a clear expenditure programme, which makes their achievement realistic.”

3.2 INSTITUTIONAL SET-UP AND RESPONSIBILITIES

SPPRED Secretariat

The Government is now commencing with the implementation phase of the SPPRED. In terms of its initial activities, the SPPRED Secretariat (formerly National Program for Poverty Reduction Secretariat) is setting up the Poverty Monitoring Unit and preparing a training needs assessment. In addition, the Government recently established an Advisory Board to provide overall guidance, as well as reactivated the original 15 sector working groups, which were the main inter-government coordination mechanisms during the formulation phase of the SPPRED.

The Government has been preparing for the implementation phase of the NPPR. For this phase, a new secretariat, the State Programme for Poverty Reduction and Economic Development (SPPRED) Secretariat, was created in January 2003. The new secretariat, within the Ministry of Economic Development (MOED), has been strengthened to have overall responsibility for coordinating and monitoring the NPPR implementation process. This secretariat will be responsible for:

- coordinating the NPPR policy measures among various government agencies, and coordination of externally funded activities in support of the implementation of the NPPR;
- monitoring the implementation of the NPPR policy measures;
- overseeing the work of the poverty monitoring unit, which will be incorporated in the SPPRED secretariat;
- continuing the participatory process initiated in the preparation phase of the NPPR to build greater stakeholder awareness; and
- ensuring a close link between NPPR policy measures and macroeconomic policies.

Monitoring arrangements - the Poverty Monitoring Unit

A Poverty Monitoring Unit (PMU) was set up under the SPPRED Secretariat (with financial and technical support from the UNDP) in order to improve monitoring of different aspects of living standards in the country. Enhancing capacity in this area is considered vital in order to be able to monitor the future impact of the policy measures being taken under SPPRED. The PMU began its activities in February 2003, and since then has been working closely with the SSC and the Sector Working Groups in order to identify and define the gaps in the country's data collection system, and to make recommendations on how they can be filled in order to improve monitoring of living standards.

Efforts have been made to build up capacity in poverty analysis. The staff of the PMU, the SSC and also various research institutes in the country have benefited from a number of training initiatives which were organized in 2003. These included a training course on Poverty Measurement and Diagnostics, organized by the World Bank Institute, which provided a mix of lectures and hands-on training in the use of SPSS for analyzing survey data. The EU Food Security Programme together with the FAO organized a training seminar on Monitoring of Food Security. The WB supported the SSC in the preparation of the HBS annual data base for outside users, and as part of a regional initiative, provided supervision and support to local researchers in the use of the data base for analyzing various aspects of poverty. The PMU has been busy:

- *Preparing annual database from HBS for use:* The SSC has taken measures to further improve data collection through its HBS. This survey was completely re-designed in

2001, and since then has continued to be improved with technical assistance from the WB and ADB. The SSC published bulletins with results from the HBS in table form and also provided access to interested parties to them, by making this available on CD-Rom, and placing it on the SSC's website.

- *Integration of information from the FSIS Unit at the SSC into the regular poverty monitoring:* The SSC is also cooperating with the EU Food Security Programme in carrying out surveys on vulnerability to food security and evaluating of food security in the country. The results of this work are published in quarterly bulletins.
- *Publishing and improving poverty indicators on an annual basis:* Over the past year, the PMU has worked on creating a data base using those living standard indicators currently available in the country, and documenting their strengths and limitations. The PMU experts have also taken a lead in examining the possible options for country-specific MDG targets and indicators, and in establishing poverty estimates for the country using the SSC's HBS data.
- *Carrying out a regular Labor Force Survey to monitor employment in the formal and informal sectors of the economy:* As was mentioned in the labour market and employment section, a national labour force survey was carried out for the first time in 2003 with technical assistance from the International Labour Office (ILO) and UNDP. The SSC is currently preparing bulletins with summaries of the survey results.
- *Carrying out an annual survey of the refugees and IDPs to monitor changes in their living Conditions:* A survey was carried out during September-December 2003 among the refugees and IDPs in Saatly, Sabirabad, Bilasuvar and Barda regions to analyze their current living conditions. The report is expected to be published by the end of first quarter of 2004.
- *Developing gender disaggregated statistics and publication of annual bulletin with focus on gender disaggregated statistics derived from survey and administrative data:* The SSC has also improved the content and lay-out of its annual bulletin "Women and Men in Azerbaijan". This represents a further improvement in the development of gender-

disaggregated statistics, and it is planned to publish such a bulletin annually. Another annual bulletin “Children in Azerbaijan-2003” has also been published.

- *Carrying out regular qualitative/participatory work on population’s perceptions of the definition of and reasons for poverty in the country:* It is recognized that quantitative indicators are not always sufficient to build up a full picture of the extent and causes of poverty, and for this reason a qualitative survey was carried out in the summer of 2003. The survey was conducted under the supervision of the PMU within the SPPRED Secretariat, and with support from the UNDP. Focus group discussions and individual interviews were carried out in 11 regions of Azerbaijan (Sumgait, Guba, Gusar, Shaki, Gabala, Jalilabad, Yardimly, Mingachevir, Barda, Imishli, Aghstafa). The results of the survey are being used by the PMU to supplement the quantitative information available on living standards, and to make informed recommendations on how to improve the questionnaires of the HBS.

As part of the participatory approach followed by the SPPRED Secretariat, a series of regional workshops were organized in 6 regions of the country (Guba, Nakhchivan, Shaki, Masally, Ganja and Shamakhy). These workshops were organized with technical assistance from the USAID, UNDP, Asian Development Bank and German Government. The purpose of the workshops is to listen to the perceptions of the local population on the reasons for poverty and their proposals for improving local living standards. The workshops also provide a forum for discussing the purpose and effect of the policy measures being introduced under SPPRED. Discussions during the workshops are very lively, and a report summarizing the discussions is available from the SPPRED Secretariat.

- *Monitoring and improving the legislative base on minimum living standard:* Work on improving the legislative basis for the country’s minimum subsistence level has begun. A draft law on the “Minimum Subsistence Level”, with proposals for a clear methodology to be used for the calculation of the minimum subsistence level in the Republic of Azerbaijan has been submitted to the Cabinet of Ministers. A proposal to make the minimum wage equal to the minimum subsistence level has also been submitted to the Cabinet of Ministers.

3.3 INTRA- GOVERNMENT COORDINATION

Intra-government coordination is weak. UNDP Evaluation of its role in the PRSP process revealed that the PRSP is seen as a donor instrument developed by the Ministry of Economic Development and not as an overall national development plan. There is no evidence to suggest that this situation has changed over the past 18 months.

While there was no competing national development or poverty reduction plan, the PRSP nonetheless replaces existing ways of doing things and gives more power to MED.

In addressing the establishment of an effective Framework for Implementation of the Integrate Non-Oil Trade and Investment Strategy (INOTIS) initiative the WB report notes that while there are a number of possible alternatives, any such mechanism should incorporate two main characteristics. First, it has to be clearly coordinated with SPPRED-as the key initiative for development of the non-oil sector-and therefore linked to the SPPRED Secretariat, which has the overall responsibility for coordinating the implementation of the SPPRED. Second, it must embody a mechanism for public-private sector dialogue and action. While the role of the public sector is critical, effective public-private dialogue is equally important. An appropriate mechanism needs to be linked to the highest levels of Government and the private sector, as well as international and bilateral donors, NGOs and other stakeholders.

Decentralization was started through creation of municipalities in the country in 1999. Municipalities are recent democratic structures in Azerbaijan. As an important aspect of the democratization process in Azerbaijan, municipalities play a key role in facilitating the articulation of local and community aspirations regarding poverty reduction. The role of municipalities therefore, is crucial in the successful implementation of SPPRED and sustainable regional development. Municipal capacity needs to be strengthened to enable them to play an effective role in the implementation of the SPPRED and Public Investment Plans.

3.4 CAPACITY

Capacity is a problem across the board. Although staffed by many experienced officials from the previous regime, the existing state administration is relatively new ie only following the Law on Public Administration of September 1993. Capacity problems exist at both the individual and organisational level be it at the centre or among local government and NGOs. Public Administration reform towards the models promoted by the IFIs has not been as quick as in some of Uzbekistan's neighbours. As a result the gap between existing capacities and those required to implement the PRS process are quite significant.

3.5 POLITICAL COMMITMENT

Political commitment at any level is unclear. In the Azeri context, political commitment needs to come from the highest levels of the state, specifically from the President. Without his commitment to the process it is unlikely that there will be effective implementation. An important influence must be the transfer of presidential power from father to son in late 2003. While the father illustrated a degree of commitment at the launching of the PRSP in October 2002, his subsequent illness and the passing of power to his son may have changed the situation. Already we have seen the development of another state programme that may in fact overlap the SPPRED. Most importantly, however, even though the PRSP/SPPRED is an IMF/World Bank conditionality, the government is openly talking about poverty levels, something it did not do before. The test of this commitment will come after 2005 when oil revenues are due to increase significantly and the leverage of the IMF and World Bank will be reduced.

3.6 CONSULTATION WITH OTHER STAKEHOLDERS

There is ample evidence that the process of encouraging broad participation in the SPPRED/PRSP process has continued since its launch and subsequent approval. Following approval of the PRSP in 2003 the process took a number of forms:

- Firstly, a series of **regional workshops** were held in six different regions of the Republic. These built on the positive experience in this type of activity in the formulation period, when workshops were held in five regions. These workshops provide a forum where government officials and civil society representatives can exchange views on the measures most appropriate for having a poverty impact at the national and local level. Representatives from the national government meet with local government officials, NGOs, municipalities and members of the local communities. The local population has the chance to gain more information on SPPRED's aims and progress, but also to put forward their own perceptions on the priorities for impacting living standards in their specific region.
- The second type of activity took the form of **discussions with representatives of the mass media**, in order to develop their understanding of SPPRED and to widen the dissemination of information by using the media. These activities have served to raise public awareness of SPPRED, but also to open up the debate on poverty and the ways to combat it.
- Thirdly, a series of activities were undertaken, often in partnership with NGO's, aimed at **promoting the participation of certain target groups**. These included various training initiatives to increase the effective and active participation of local communities in the debate on poverty reduction and economic development in the regions.

Other activities include organization of displays of SPPRED materials, CDs and audio tapes of SPPRED in libraries, posters on challenging people to fight poverty, information leaflets and presentations at various forums. The board objectives of the continuing participation process include:

- To continue the dialogue with the civil society;
- To increase public awareness of the SPPRED implementation process;
- To exchange views concerning the impact of the measures set out in the Policy Matrix on improving the living standards of the population;
- To make policy recommendations for changes in the policy measures and actions based on the proposals received from members of civil society;

- To strengthen the poverty reduction strategy by improved prioritization based on information obtained from various groups of civil society;
- To ensure that the most vulnerable groups are involved and consulted in the implementation process.

The 2004 Annual Progress Report of the SPPRED reports that the results of the participation process have included the following:

- The results of the various activities undertaken as part of the participatory process have so far been positive in terms of creating a clearer understanding of the government and civil society concerning SPPRED's goals. Apart from providing representatives from civil society with more details on SPPRED, the activities have served to highlight local potential and resources; have facilitated the transfer of information and experience; and have given rise to new ideas on future measures.
- One of the positive aspects which has come to light during the participatory process is the increased confidence and competence of participants to effectively engage in the debate. In contrast to the first year (during the formulation phase), the members of the population do not only enumerate their problems, but also put forward proposals for their solution and make suggestions on how they can contribute to this process.
- However, certain parts of the population of the country have not yet been able to take an active part in the SPPRED implementation process for a number of reasons. This is the case especially in the regions where regional workshops were not held and where community development is weak.

3.7 DONOR SUPPORT FOR IMPLEMENTATION

The donor community worked closely together in support of the preparation of the SPPRED 2003-05 and aims to continue the process. A joint aide memoire was signed by ADB, the World Bank (WB), and the United Nations Development Programme (UNDP) in October 2002 and set out a coherent operational framework and financing plan for the implementation phase of the SPPRED through support to the SPPRED Secretariat.

Asian Development Bank

- TA 4087-AZE Capacity Building for Medium-term Poverty Reduction Strategy Implementation \$650,000 approved in March 2003.
- In parallel with its assistance for the SPPRED, ADB has initiated its poverty reduction partnership process in Azerbaijan. A first draft poverty partnership agreement (PPA) was discussed with the Government in May 2003. The next draft will be discussed once the SPPRED Poverty Monitoring Unit's poverty targets are ready and can be compared with those currently in the PPA. It is envisaged that the PPA can be signed in the first quarter of 2004. ADB CSP 04-06 concept paper p47
- A second phase of the project is envisaged – concept paper ADB CSP p59. This long term approach and commitment is a good thing – try to show that it is not simply a fashion

World Bank

The World Bank's new Country Assistance Strategy (CAS) for FY03-05 is designed to support the SPPRED. Specifically, the FY03 -05 CAS will span a crucial period in preparing the country for the anticipated oil boom. The broad elements of the new Country Assistance Strategy envisage assistance in the following areas:

- Managing the oil boom to help maintain macroeconomic stability, avoid “Dutch disease” (a high exchange rate damaging the competitiveness of its non-oil tradable sectors), and facilitate non-oil growth, employment and pro-poor expenditures.
- Generating jobs and non-oil growth by improving the business environment and access to financial services, building infrastructure to support Small and Medium Enterprises (SMEs), and stimulating agriculture.
- Improving access to services by reversing the decline in social services and social assistance, and infrastructure.
- Realizing the country's oil potential to the extent and within the time-frame laid out in the SPPRED.

The WB is expected to approve a Poverty Reduction Support Credit (US\$20 million to be disbursed in one tranche) in mid-2004. The objective of the proposed PRSC is to develop and implement policies and structural reforms that are consistent with and supportive of the SPPRED. The Credit is structured around three components reflecting Government's reform

priorities: (a) create non-oil sector economic opportunities and jobs; (b) increase accountability and improve governance; and (iii) promote social inclusion and improve service delivery.

PRSC policy conditions - To create an accountable public sector, the proposed Government program that the PRSC would support envisages policy actions in four key dimensions: (i) improving transparency and accountability in the public sector; (ii) improving public expenditure management process and strategic prioritization; (iii) ensuring prudent management of oil revenues; and (iv) strengthening public financial management and the procurement process.

The United Nations System

Following approval of the SPPRED, the UN Country Team in Azerbaijan established a new UN Poverty Theme Group which will facilitate UN system support for the SPPRED and will also assist the Government to help achieve the UN's Millennium Development Goals (MDGs) through the implementation of the SPPRED. All UN agencies in Azerbaijan as well as the World Bank and the IMF are members of the UN Poverty Theme Group.

The UN country team in Azerbaijan recently prepared the first UNDAF for the country for the 2005-2009 period. The purpose of the UNDAF is to guide UN programming through a collective and integrated response to national priorities and needs for future five-year cooperation between the Government of Azerbaijan and UN Agencies. In Azerbaijan, the overarching framework for the UNDAF is the country's State Programme for Poverty Reduction and Economic Development (SPPRED). Through the UNDAF, the UN Agencies will work closely with the Government and other development partners to facilitate Azerbaijan's fulfilment of the SPPRED, the Millennium Development Goals (MDGs), and its commitments to international conventions. (from UNDP website)

In December 2002, soon after the SPPRED was officially launched, UNDP started a project to support it: Capacity Building to support the ongoing monitoring of poverty reduction efforts in relation to the SPPRED. This one-year project will assist with the establishment and capacity building of a Poverty Monitoring Unit (PMU) within the SPPRED Secretariat of the Ministry of Economic Development. The Unit will be responsible for the monitoring and analysis of poverty in a close collaboration with activities of SPPRED Secretariat on

monitoring and evaluation of the Programme's implementation. PMU will provide a key mechanism to institutionalise the ongoing process of assessing and monitoring poverty that will be further used for analysis of poverty reduction, as well as positively impacting national policy.

4. CHALLENGES TO IMPLEMENTATION

It is interesting to note that the draft Annual Progress Report for 2003 does not identify a set of challenges to implementation. It does not examine the key issues related to institutional set-up, capacity, commitment, coordination etc that are being examined in our document. Rather it moves to examining what has happened in 2003.

4.1 KEY CHALLENGES FROM IMPLEMENTATION SO FAR

Just before the start of the implementation process the JSA identified a number of areas where progress needed to be made during implementation:

- Need to further strengthen the capacity to collect and analyse data
- International standards
- Link analysis to policy
- Progress on costing and prioritisation of actions (as contained in annex 1 of the SPPRED)
- Institutional capacity building
- Ensure broad participation of Civil Society on the process

Depth of integration of PRSP in budget process

In 2002 the Government drafted and enacted a new Budget Systems Law (BSL) that provides a legal framework to make the budget process a more effective tool in policy formulation. This new law clearly delineates the core responsibilities of the Treasury and involves the line ministries far more in strategic priorities. It has a number of key elements:

- A key element of the new BSL is that it incorporates regulations governing all extra-budgetary operations (including the Oil Fund), defining the need for all general government revenues and expenditures to be included in the consolidated budget.
- Another key contribution of the new BSL is that it will allow for a more effective multiyear budgeting framework. Thus, it will provide the necessary link with the ongoing PRS exercise, the PIP (which will encompass a medium-term implementation cycle), and

the MTEF. Annual budgets can thus be made consistent with the multi-year objectives of poverty reduction and infrastructure development.

- This new law will ensure that future state budgets provide far more detail on expenditure allocations and is much more explicit in defining the responsibilities and accountabilities of spending units in the implementation of this budget. The first budget affected will be that for 2003, which will be prepared according to the BSL's provisions. The Government has already issued directives to all line ministries to ensure that early budgetary preparations are fully consistent. The drafting of implementing rules and regulations is presently under way with technical assistance from the donor community.

Unfortunately, institutional weaknesses remain. Some lack of clarity remains in the delineation of responsibilities for budget preparation between the MOF and the line ministries. This is particularly apparent with regard to state budget institutions located in the regions, for which the controlling line ministries assume no oversight responsibility. Financial analysis capabilities in the line ministries should be strengthened and there is a need to strengthen the Project Appraisal Department in the Ministry of Economic Development (MED), which will undertake technical, financial, and cost-benefit analyses of investment proposals in support of other line ministries.

According to a statement made by Fritz Zurbrugg, IMF Executive Director for the Azerbaijan Republic in December 2003, the implementation of the SPPRED is well underway and that a greater consistency between the strategic goals of the SPPRED and the budgetary process and Public Investment Programme was achieved during the countries of 2004 budget preparation.

Sector strategies

The 2001 UNDP study noted the lack of ownership beyond the MED and it is difficult to determine if this has changed following completion of the document or specifically, what the MED has done to broaden ownership and fully involve sectoral ministries beyond membership of working groups.

The progress reports has no indication of improved mechanisms to address the issues of costing, prioritisation, communication or clarity. These are partly capacity constraints but may also relate to the priorities of donors in terms of their support.

Monitoring and feedback arrangements

Continuous efforts have been made during the PRS process to improve poverty monitoring mechanisms and to bring data collection methods and data analysis up to internationally acceptable standards. The increased capacity is clear from the draft SPPRED Progress Report issued in May 2004. While gaps remain, there are efforts to fill them and donor support has been forthcoming.

It has already been noted that the development of the SPPRED benefited from an effective participation process which succeeded despite being a new approach for many participants. *“This approach had the aim of encouraging and facilitating the involvement of decision makers, civil society, and the international donor community in concentrated efforts to combat poverty.”* (progress report). This participatory process has continued during implementation.

Activities were undertaken in 2003 to re-launch an extensive and inclusive participatory process, to be continued throughout the SPPRED implementation stage. The participatory approach has been vital in taking forward the process of consultation with civil society. It has helped to inform policy makers of the actual and potential impact of poverty reduction measures at the local level, and has raised awareness among broad sections of the community on the aims of SPPRED and how they can play an effective role in the implementation period. The broad objectives of the participatory process in the implementation period can be summarized

as:

- To continue the dialogue with the civil society;
- To increase public awareness of the SPPRED implementation process;
- To exchange views concerning the impact of the measures set out in the Policy Matrix on improving the living standards of the population;
- To make policy recommendations for changes in the policy measures and actions based on the proposals received from members of civil society;

- To strengthen the poverty reduction strategy by improved prioritization based on information obtained from various groups of civil society;
- To ensure that the most vulnerable groups are involved and consulted in the implementation process.

The extent to which information, either from the participatory process or from data collection is being utilized in policy formulation is unclear from a desk review and it is probably still too early to determine the effectiveness of the approaches and feedback mechanisms currently being implemented.

4.2 RISKS TO EFFECTIVE IMPLEMENTATION

The DfID draft regional strategy for Central Asia, the Southern Caucasus and Moldova (CASCM) identifies a number of foreseeable risks for the region, all of which apply to Azerbaijan:

- Re-emergence or escalation of national and regional conflicts (e.g. Armenia-Azerbaijan, Georgia and Moldova)
- Likelihood of a major natural disaster affecting CASCM and little disaster preparedness or response capacity
- Political instability, insufficient government capacity or lack of political commitment
- Unwillingness of key development institutions to collaborate and provide assistance in support of PRSPs
- HIV/AIDS
- BTC 'resource curse'/Azerbaijan squanders its oil wealth

The JSA of the PRSP also identifies a number of risks to achievement of PRSP objectives. Like DfID, it notes that the most important of these relates to the external environment. Implementation of the PRSP also faces a number of risks that may be beyond the technical nature of implementation (capacity, coordination etc) and may often be beyond the control of the government. Unresolved conflict over Nagorno-Karabakh is the key external risk.

5. CONCLUSIONS: LESSONS LEARNED AND RECOMMENDATIONS

5.1 LESSONS LEARNED

- (a) Donor coordination for the direct support of PRSP implementation is very important. This was key in preparation of the PRSP and was recognised as such. As a result coordination of the three main supported of implementation – WB, UNDP and the ADB – has led to more effective management of the process.
- (b) A major problem for implementation is the format of the PRSP document. It is not a good tool for use by practical people in ministries and government agencies or local government. It needs to be designed as an integral part of the planning system not an add-on document that causes more confusion than clarity. The countries need to take ownership of the design of the document and produce something that is useful for them. There is no reason why this cannot also comply with IFI requirements for financing but their own requirements must come first.
- (c) The PRSP process need to be an integral part of an public administration reform and specifically the development of a comprehensive national development planning framework including all the necessary instruments and tools.
- (d) At the same time the development of a medium-term strategy requires a longer term framework within which it can be placed. This will not only support the design of the policies and interventions in the PRSP but also the implementation of the PRS process.
- (e) Sectoral ministries need to be convinced of the importance of the process from the start and their ownership needs to be strengthened. They cannot be brought in only through individuals participating in sectoral working groups or once the PRSP has been completed when they are suddenly expected to adjust to what is said in the document.
- (f) A document that does not set out the roles and responsibilities of all the government stakeholders (and possibly some agreed among non-governmental stakeholders) will lack

broad ownership. The purpose, role and management of the PRSP needs to be clearly set out from the start.

5.2 RECOMMENDATIONS FOR IMPROVED IMPLEMENTATION

- (a) An overall planning framework needs to be clearly defined, as does the role of the PRSP within it. This may not happen in the next phase of the PRS but should be established before the third iteration. Work needs to start now and additional donor support should be provided. Establishment of such a framework should be the priority of government and donors alike.
- (b) The next PRSP must be designed for the needs of government in the first instance and to comply to the demands of the IFIs should not be the primary concern.
- (c) Donors need to start thinking of triggers to move towards budget support once the framework is in place
- (d) Donors need to be more programmatic in their support and to see the PRS process not just as a stand-alone activity but as an integral part of the overall development planning and management framework. This is especially important for those donors who do not engage with public administration reform and may therefore support parallel structures through the PRS process.

ANNEX 1: DOCUMENTS REVIEWED

KEY PRSP DOCUMENTS

- PRSP – State Programme of Poverty Reduction and Economic Development (SPPRED) 2003-05
- JSA of the PRSP April 15 2003
- I-PRSP
- JSA of the I-PRSP
- SPPRED Annual Report 2003 (Draft)

OTHER GOVERNMENT DOCUMENTS

- Decree of the President of the Republic of Azerbaijan on approval of the “SPPRED 2003-2005”, Baku, 20 February 2003
- State Programme on Socio-economic Development of the Regions
- Cabinet of Ministers resolution on implementation of SPPRED (May 2003)

DONOR PROGRAMMING DOCUMENTS

Asian Development Bank

- ADB Country Strategy and Program Update 2004-2006
- ADB Technical Assistance to the Republic of Azerbaijan for Capacity Building for Medium-Term Poverty Reduction strategy Implementation (March 2003) AZE36514

Department for International Development (UK)

- Central Asia and South Caucuses Strategy Paper (October 2000)
- Central Asia, South Caucuses and Moldova (CASCM) Regional Assistance Plan (Draft – February 2004)

European Commission

- Country Strategy Paper 2002-2006
- TACIS Indicative Programme for Azerbaijan 2004-2006
- TACIS Action Programme 2002-2003
- Partnership and Co-operation Agreement (PCA) July 1999
- RESAL Azerbaijan Technical Note: Appreciation of PRSP initiative and definition of FSP involvement in poverty reduction

IMF

- Third Review under the three-year agreement under the PRGF (December 2003)

UN System

- United Nations Development Assistance Framework (UNDAF) 2005-2009
- Common Country Assessment (CCA) 2003
- UNDP Project Document - Capacity Building to support the ongoing monitoring of poverty reduction efforts in relation to the SPPRED (AZE/02/M05)
- UNDP AZE/02/M05 PTF Mid-Term Report

World Bank

- WB Country Assistance Strategy 2003-2005
- Azerbaijan Country Financial Accountability Assessment (September 2003)
- Azerbaijan Public Expenditure Review (April 2003)
- WB Public Information Document - Azerbaijan: Poverty Reduction Support Credit

OTHER REPORTS

- UNDP EO UNDP's Role in the PRSP Volume 2: Country Studies – Azerbaijan
- Vaux, T. and J. Goodhand (2002). War and Peace in the Southern Caucasus. Stonesfield, Humanitarian Initiatives.

ANNEX 2: ANALYTICAL FRAMEWORK

Domains → Issues ↓	Institutional set-up	Political commitment	Intra-government coordination	Capacity	Consultation with other stakeholders
Depth of integration with budget/MTEF	The MTEF and PRSP/SPPRED are responsibilities of different ministries (Ministry of Finance and MED respectively)	The lack of political commitment may not harm integration from a technical standpoint. The challenge is then to implement the MTEF	Poor coordination and lack of an overall planning framework that link all planning instruments together	Weak capacity for costing and prioritisation	Good but not having a great influence on this issue
Sector strategies/work plans with clear priorities	Not enough to bring all sectoral ministries together	Probably not enough to bring all sectors together within the SPPRED framework	Lack of an overall planning framework	Weak, especially among sectoral ministries in prioritisation	Good but not having a great influence on this issue
Indicators, monitoring and feedback arrangements	The establishment of the PMU has increased access to data, ensuring quality. No evidence of utilisation in terms of policy reform	Without adequate commitment then sharing, reform of data and utilisation may be weak	Sharing and utilisation of data still weak	Capacity may be weak but the issues have been identified and are being addressed with the help of the donor community	Continued consultation mechanisms are supporting feedback and allow triangulation with quantitative monitoring systems.

ANNEX 3: MAP OF AZERBAIJAN



Map No. 3761 Rev. 4 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section