

## VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

- 1 – Overview
- 2 – Coordination Mechanism
- 3 – Asian Development Bank (ADB)
- 4 – European Bank for Reconstruction and Development (EBRD)
- 5 – International Monetary Fund (IMF)
- 6 – United Nations Development Programme (UNDP)
- 7 – World Bank
- 8 – European Union (EU-TACIS)
- 9 – United States (USAID)

### 1. Overview

The World Bank, European Bank for Reconstruction and Development (EBRD), European Union (EU-TACIS) and the International Monetary Fund (IMF) provide significant assistance to Azerbaijan. Germany, Japan and the Netherlands are the main bilateral donors. However, the Government has announced its attention to significantly reduce its reliance on external assistance within five years.

Table 6: Overall External Assistance to Azerbaijan<sup>28</sup>

External Source (US\$ million)	2000 Program	
	Loan	Grant
<b>Multilateral</b>		
United Nations (UN) System	..	6.4
World Bank	26.5	..
Other International Financial Institutions (IFIs)	24.5	..
European Union	..	20.0
European Bank for Reconstruction and Development (EBRD)	75.0	..
Subtotal	126.0	26.4
<b>Bilateral</b>		
Total	50.3	..
Total	176.3	26.4

<sup>28</sup> United Nations (UN). 2001. *Resident Coordinator Report 2000: Azerbaijan*. Baku: UN. p. 24.

## 2. Coordination Mechanisms

The Foreign Economic Relations Department of the Ministry of Finance coordinates external assistance to Azerbaijan. The World Bank provided assistance to enhance coordination mechanisms and policies in 1995.<sup>29</sup>

## 3. Asian Development Bank (ADB)

Azerbaijan joined ADB in December 1999. As of December 2001, the first technical assistance project was operational<sup>30</sup> and three Project Preparatory Technical Assistances (PPTAs) were planned. ADB's assistance to Azerbaijan is intended to reduce poverty and promote socioeconomic development by supporting sustainable economic growth and assisting the poor. ADB aims to support institutional reforms that promote growth in non-oil sectors particularly agriculture and small- and medium-sized industries.

### Relevant Loan Projects

As of December 2001, there were no active or planned loan projects that related directly to improving financial governance arrangements.

### Relevant Technical Assistance

The relevant initiatives that ADB has supported, or is supporting, in relation to financial management and governance include:

*TA No. 3661: Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance*

The objective of this TA for \$762,000 approved on 31 May 2001 is to support the development of a sound economic policy framework so as to strengthen economic policy-making capacity within MOF and improve the quality of economic advice. The scope of the TA includes: (i) assistance to develop a sustainable Macroeconomic Policy Group (MPG); (ii) provision of strategic policy advice on matters of structural reform and macroeconomic policy; (iii) continuous improvement of the economic information base for

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<sup>29</sup> World Bank Project P019256, *Managing Aid Coordination*, for \$350,000, 1995.

<sup>30</sup> TA No. 3661-AZE: *Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance*, for \$762,000 approved on 31 May 2001.

economic policy making within MOF; (iv) enhanced forecasting and program design capacity in MOF and improved policy analysis in key areas of fiscal reform; and (v) a macroeconomic framework and criteria for a public investment program, to be developed in coordination with MPG and the Debt Management Department of MOF, and strengthening the Project Evaluation Unit.

#### **4. European Bank for Reconstruction and Development (EBRD)**

The European Bank for Reconstruction and Development (EBRD) is emphasizing programs and activities that support privatization, financial reforms, industrial restructuring, the creation and strengthening of infrastructure, foreign investment inflows and environmental repairs. EBRD has been providing assistance to a number of organizations to improve their accounting and financial reporting capabilities.<sup>31</sup>

Furthermore, EBRD is currently considering providing assistance to the State Securities Committee to improve securities laws and regulations in line with international practice.

#### **5. International Monetary Fund (IMF)**

IMF has provided assistance to improve macroeconomic policies and to strengthen central bank functions.

#### **6. United Nations Development Programme (UNDP)**

United Nations (UN) activities have focused primarily on environmental issues and providing humanitarian assistance—particularly in relation to Internally Displaced Persons (IDPs) and refugees. However, UNDP is beginning to reorient away from humanitarian issues towards development.

#### **7. World Bank**

The World Bank is a significant provider of assistance to Azerbaijan. As of 30 June 2000, there were 15 operations in Azerbaijan with International

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<sup>31</sup> For instance, ●300,000 was provided to assist Azerbaijan Devlet Demir Yolu (State Railways of Azerbaijan) to meet loan covenants regarding accounting requirements.

Development Assistance (IDA) commitments totaling \$411 million.<sup>32</sup> Assistance has included providing support to executing agencies to improve accounting procedures and to finance external financial audits.<sup>33</sup>

*Pipeline: Institution Building Technical Assistance Project II*

This pipeline project for \$16.0 million has two components: Public Sector Reform (PSR) and Financial Sector Reform (FSR). The Public Sector Reform (PSR) component provides specific support and assistance to (i) improve the management of public resources; (ii) strengthen the accountability, efficiency and policy implementation capacity of the central government; (iii) improve the delivery of selected public services; and (iv) put in place the basic requirements for an independent judiciary and for the future development of the legal system. The Financial Sector Reform (FSR) component will focus on: (i) assistance to the Government for the divestiture of state banks; (ii) assistance to the NBA and the Government for the establishment of the necessary infrastructure, and enhancement of banking supervision; and (iii) assistance in the strengthening of the necessary legal and regulatory environment, including further improvement in the legal infrastructure, especially in relation to bankruptcy, collateral, registry of movables and related matters.

*Project P055131: Second Structural Adjustment Credit Project (\$60.0 million)*

The objective of this recently approved program is to support the Government's public sector reforms. In doing so, it is intended to contribute to improved public financial management, including: (i) better management of public resources—human, financial and natural; (ii) improved delivery of public services; and (iii) an enabling environment for private sector development. The proposed reform program will be a start to streamline the budget process and enhance transparency, efficiency and accountability. It will provide tools for evaluating expenditure programs and assessing trade-offs in expenditure allocation. The program to modernize public administration would lead to greater transparency, efficiency and accountability in the executive branch of the state. The legal and judicial reform program would create a framework of laws and institutions that can effectively protect private property, enforce contracts, defend economic

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<sup>32</sup> World Bank. September 2000. *Country Brief: Azerbaijan*. Wbln0018.worldbank.org/ECA/eca.nsf

<sup>33</sup> See for instance, Loan No. 29230: *Gas System Rehabilitation Project*, under which \$165,000 financed an external audit of Azerigaz.

rights against infringement and provide a secure environment for investments.

Tranches will be released in accordance with reform progress. Technical assistance will accompany the program. The program will address reforms in three key areas:

- **Expenditure Management and Auditing:** Many of the vital elements of a budgetary system are underdeveloped. Processes and procedures need to be established to assure that budget-funded public services are appropriate and adequate to the needs of the population, and to satisfy managerial and expenditure control requirements. A functioning internal and external audit system needs to be implemented, so that the audit entities can institute basic systems for transparency and accountability across the state and promote regularity and propriety.
- **Administrative Reform including Civil Service Reform:** The broad aim of administrative reform in Azerbaijan should be to create a government structure and workforce of the size and with the accountability, service delivery standards, transparency, skills, and incentives needed to provide quality public services and carry out the functions assigned to the state.
- **Legal and Judicial Reforms:** Stable and consistent legal framework and reliable, independent and accountable judiciary are a basic precondition for further economic development. Legal reform in Azerbaijan will concentrate on strengthening a country capacity to design a sound legal framework for market economy. This goal will be achieved through improving legal drafting processes. An independent and accountable judiciary is a crucial check on abuse of power by or in the other branches of State. Therefore judicial reform in Azerbaijan will be aimed at strengthening judicial independence, increasing efficiency and effectiveness of commercial courts and creating an enabling environment for an independent legal profession.

*Loan 35180: Financial Sector Technical Assistance Loan Project (2001–2006)*

This main objective of this project for \$5.4 million, approved on 12 June 2001, is to provide technical assistance to the Government of Azerbaijan to support further implementation of its financial sector development strategy. This technical assistance will focus on: (i) bank restructuring and divestiture; and (ii) enhancement of banking infrastructure and banking supervision.

Among other things, this project aims to support: (i) the introduction of IAS-based national accounting standards for commercial banks; (ii) the establishment of IAS-compatible National Accounting Standards; (iii) the passage of the required laws and regulations to enable the administration of these National Accounting Standards; (iv) the development of financial reporting by commercial banks based on the standards prescribed by NBA, and (v) the preparation of a banking manual of procedures and guidelines for accounting practices

*Loan 27690: Institution Building Technical Assistance Project (1995–2001)*

This project, for \$18.0 million approved on 25 July 1995, had four focal areas: (i) assisting privatization and enterprise reform; (ii) strengthening macroeconomic management; (iii) developing the financial sector; and (iv) providing legal technical assistance. The financial sector components of the project focused mainly on building the infrastructure and skills necessary for the functioning of a modern banking system, complementing the IMF's assistance for the NBA. Objectives included: (i) strengthening the payments system; (ii) developing accounting and auditing systems and standards for enterprises and banks; (iii) strengthening prudential regulations, and the bank supervision function of the NBA, and reviewing the situation in the existing large state banks and developing options on dealing with their problem portfolio; and (iv) to developing basic banking skills of core central and commercial bank staff. Among other things, this project entailed the implementation of a computerized accounting system within NBA.

## **8. European Union (EU-TACIS)**

European Union—Technical Assistance to the Commonwealth of Independent States (EU-TACIS) priorities include: (i) supporting institutional, legal and administrative reforms; (ii) supporting the private sector and assisting economic development; (iii) alleviating the social consequences of transition; (iv) developing infrastructure networks; (v) promoting environment protection and management of natural resources; and (vi) developing the rural economy.<sup>34</sup> In relation to (ii), the assistance program is focusing attention on the development of internationally-accepted accounting standards

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<sup>34</sup> European Union. 2000. *Republic of Azerbaijan: 2000-2003 Indicative Programme*. p. 20.

## **9. United States (USAID)**

Although the activities of the United States Agency for International Development (USAID) have, until recently, been limited, USAID is providing assistance to support the introduction of international accounting standards and to develop qualified Azeri financial experts in order to facilitate a country-wide transfer to international standards of financial reporting.

In particular the project to support the Association of Certified Accountants of Azerbaijan includes: (i) training specialists and producing printed training materials; (ii) introducing a system of accounting certification; (iii) organizing ongoing courses for accounting certification; (iv) expanding the Accounting Association's activities into the four regions of Azerbaijan.<sup>35</sup>

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<sup>35</sup> B01-0035, Support to the Association of Certified Accountants of Azerbaijan for \$25,000.