

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: ECOC

TA No. and Name 3661-AZE: Capacity Building for Strategic Economic Policy Formulation in the Ministry of Finance			Amount Approved: \$762,000	
			Revised Amount:	
Executing Agency: Ministry of Finance		Source of Funding: TASF	TA Amount Undisbursed \$162,490	TA Amount Utilized \$599,510
Date			Completion Date	
Approval 31 May 2001	Signing 7 June 2001	Fielding of Consultants March 2002 August 2003	Original 31 December 2003	Actual 31 May 2004
			Closing Date	
			Original 31 December 2003	Actual 31 May 2005
Description				
<p>The technical assistance (TA) was intended to support the Macroeconomic Policy Group (MPG) of the Ministry of Finance (MOF) and provide policy advice to senior MOF officials. The MPG was established at MOF in July 1999 under a TA from the United Kingdom's Department for International Development (DFID). It consisted of one expatriate resident economic adviser (REA) fully funded by DFID, and mid-level MOF officials from various departments of MOF, whom DFID paid a salary supplement. The MPG gathered economic data, prepared policy notes, and assisted senior MOF officials in policy negotiations with international financial institutions (IFIs). The REA also provided policy advice to senior MOF officials. DFID, however, decided to phase out its support for the group, citing lack of funds. In an effort to preserve the MPG and continue providing policy advice to senior MOF officials, ADB approved the above TA in 2001.</p>				
Objectives and Scope				
<p>The objective of the TA was to support the development of a sound economic policy framework in Azerbaijan by strengthening economic policy-making capacity within MOF and improving the quality of economic advice. The TA was expected to produce (i) a fully institutionalized and sustainable MPG within MOF; (ii) policy advice on matters of structural reform and macroeconomic policy to senior MOF officials; (iii) an economic information base for economic policy making at MOF; (iv) enhanced capacity for policy formulation in key areas of fiscal management, including oil revenue forecasting and domestic debt management; and (v) a macroeconomic framework and criteria for a public investment program.</p>				
<p>Transborder Investment Advisory Services Limited (Transborder), the consulting firm that had implemented the DFID TA, was to be engaged under the direct consultant selection procedure to conduct the ADB TA. Transborder was to provide the services of a REA and several short-term economic advisers. MOF was to assign personnel to the MPG. MOF officials assigned to the MPG were expected to devote approximately half of their working time to group activities. DFID would continue paying them a salary supplement, but only during the first several months of TA implementation.</p>				
<p>The objective and the scope of the TA were appropriate given the economic challenges facing Azerbaijan and MOF's need for capacity building for economic policy formulation. The implementation arrangements for the TA and the terms of reference (TORs) for the international consultants and MPG were broadly appropriate to the objective and the scope of the TA. A crucial assumption underpinning the design of the TA was that MOF would provide its officials who were members of the MPG with sufficient alternative incentives to continue taking part in group activities after the cessation of the salary supplement paid to them by DFID. This crucial assumption, however, proved to be incorrect.</p>				
Evaluation of Inputs				
<p>The TA commenced in March 2002, but soon ran into difficulties. DFID discontinued paying a salary supplement to the MOF officials who were MPG members in September 2002. However, MOF did not provide them with alternative incentives to continue serving the group. As a result, the MOF officials stopped participating in MPG activities and the group ceased to exist as a team by October 2002.</p>				
<p>An ADB TA review mission visited Azerbaijan at the end of November 2002. Based on its discussions with MOF officials, the mission proposed a number of measures to revive the MPG. These included reducing inputs by international consultants, reallocating funds from international consultancy to training, and providing MOF officials who would (re)join the MPG with extensive training in areas of their responsibilities within MOF. Transborder, however, did not support these measures and decided to withdraw from TA implementation in April 2003. When ADB notified MOF of Transborder's decision in February 2003, MOF requested that TA implementation be continued together with the measures proposed by the review mission.</p>				

In response, ADB made changes in the TA implementation arrangements in June 2003 and fielded an individual consultant to serve as a REA in August 2003. Following consultations with MOF and ADB, the REA set up a new, extended MPG, which—in addition to several MOF officials who used to be members of the old MPG—included officials of the Ministry of Economic Development (MOED) and the State Statistics Committee (SSC). The new MPG focused on training in macroeconomic accounting, creation of an internally consistent economic database, and development of Azerbaijan's oil-augmented revised minimum standard model extended (RMSM-X). However, the MOF officials took only limited part in activities of the new MPG. Moreover, when the second TA review mission visited Azerbaijan in March 2004, senior MOF officials indicated that MOF was not interested in hosting the new MPG beyond 31 May 2004, when the TA was to end. The TA therefore ended on that date, with \$162,490 left unutilized.

Inputs of international consultants for a total of 21 person-months and of a domestic consultant for a total of 23 person-months were provided under the TA. Given the difficulties in TA implementation that were beyond their control, the overall performance of the international consultants was satisfactory, although it fell short of ADB and MOF's expectations in terms of initiative, flexibility, and ability to work with government officials. The performance of the domestic consultant was excellent.

The overall performance of MOF and ADB was, however, less than satisfactory. MOF's unwillingness to institutionalize the MPG by transforming it into a policy unit rendered the group unsustainable. For its part, ADB did not act swiftly enough when difficulties in TA implementation emerged, in part because the project officer in charge of the TA changed several times from March to August 2002. Further, ADB should have terminated the TA as soon as it became clear that the MPG was not sustainable.

Evaluation of Outputs

The TA did not produce expected output (i). MPG was not institutionalized by MOF and proved unsustainable in the absence of a salary supplement. Expected output (ii) was produced only partially. There was limited interaction between the international consultants and senior MOF officials, and only one policy note (on Azerbaijan's tax regime) and one position paper (on the desirability of having a sovereign credit rating) were prepared. Contrary to early expectations, the international consultants were not involved in policy discussions between the Government and IFIs.

At the same time, the TA produced expected outputs (iii)–(v) in the form of an internally consistent economic database, a new domestic debt management system, an oil-augmented RMSM-X of Azerbaijan with a manual, a medium-term expenditure framework, and its annual updates. The quality of these outputs was good and the Government was satisfied with them, although the first three items were delivered with considerable delays. In addition, the TA provided substantive inputs to the State Programme on Poverty Reduction and Economic Development for 2003–2005 (Azerbaijan's Poverty Reduction Strategy Paper), which were particularly appreciated by the Government.

Overall Assessment and Rating

The TA was partly successful in achieving its objective. It helped improve policy environment in Azerbaijan by strengthening MOF's capacity for public debt management, MOED's capacity for macroeconomic policy analysis, and SSC's capacity for reconciliation of macroeconomic accounts. The economic database and the oil-augmented RMSM-X of Azerbaijan developed under the TA could be useful to the Government in formulating and implementing medium-term economic policies during an oil boom.

Major Lessons Learned

A major lesson from this TA is that, if a TA seeks to create or maintain a policy group like the MPG, it needs to provide government officials with sufficiently strong incentives for them to join it and take part in its activities. These incentives need to be discussed and agreed on with government officials concerned during the preparation of the TA and included in its design. If the TA is processed on the "killer" assumption that government officials will find non-cash incentives to be provided by ADB sufficiently attractive and/or the government will provide them with adequate cash incentives, it is likely to run into serious difficulties.

Recommendations and Follow-Up Actions

Given the Government's need to strengthen its capacity for economic policy formulation and implementation, it is recommended that the training of officials of MOED, SSC, and other relevant government agencies in economic policy analysis be continued under the recently approved TA for capacity building at MOED. In particular, it is recommended to train government officials to effectively use and further develop the oil-augmented RMSM-X of Azerbaijan.