

Evaluation of EC Tacis Country Strategy: Azerbaijan 1996-1999

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The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission, which funded this report.

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List of Abbreviations

AP	-	Action Programme
ARRA	-	Agency for the Rehabilitation of the Occupied Territories
Azplac	-	Azerbaijan Policy and Legal Advice Centre
BIC	-	Business Innovation Centre
BWI	-	Bretton Woods Institution
CSE	-	Country Strategy Evaluation
CU	-	Co-ordination Unit
DAC	-	Development Assistance Committee
EBRD	-	European Bank for Reconstruction and Development
EC	-	European Commission
ELIF	-	Entrepreneurial Learning and Innovation Fund
ESAF	-	Enhanced Structural Adjustment Facility
EU	-	European Union
GDP	-	Gross Domestic Product
GoA	-	Government of Azerbaijan
IDA	-	International Development Association of the World Bank
IFI	-	International Financing Institution
IMF	-	International Monetary Fund
Inogate	-	Inter-State Oil and Gas to Europe
IP	-	Indicative Programme
IPSP	-	Indicative Programme Strategy Paper
ISP	-	Inter-State Programme
LIEN	-	Link Inter-European NGOs Programme
MS	-	Member State
m	-	million
MoLSP	-	Ministry of Labour and Social Protection
NGO	-	Non-governmental organisation
NIS	-	Newly independent state
ODA	-	Official Development Assistance
OECD	-	Organisation for Economic Co-operation and Development
PAP	-	Policy Advice Programme
RARP	-	Rural Agricultural Reform Programme
SCR	-	Joint Service for the Management of Community Aid to Non-Member Countries
SME	-	Small and medium enterprise
SMEDA	-	Small and Medium Enterprise Development Agency
SPC	-	State Property Committee
SPP	-	Small Projects Programme
TA	-	Technical Assistance
Tempus	-	Trans-European Co-operation Scheme for Higher Education
ToRs	-	Terms of Reference
Traceca	-	Transport Corridor – Europe-Caucasus-Asia
WTO	-	World Trade Organisation

Preface

This Azerbaijan Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on European Community assistance programmes worldwide, undertaken on behalf of the Evaluation Unit in the Joint Service for the Management of Community Aid to Non-Member Countries (SCR). These evaluations are intended to be forward-looking, contributing to the development of new strategies. They focus on whether the objectives and strategies pursued by the EC are relevant to the country's needs, on whether the activities supported are consistent with these strategies and needs, and on whether the way in which EC aid has been managed has been appropriate to successful implementation of these activities. They also consider how EC assistance is co-ordinated with that of other aid agencies. The CSEs provide operational recommendations aimed at enhancing the effectiveness of EC aid on the processes of economic reform and development.

Since 1992, the European Community has been providing economic assistance to Azerbaijan. A major share of this support has been in the form of technical assistance (TA) provided through the Tacis programme, managed by the Directorate General for External Relations. Tacis support has been provided through the framework of an Indicative Programme (IP), updated every four years. Under the IP, individual project allocations are made through the regional Inter-State Programme (ISP) and national Action Programme (AP). The Tacis country strategy for Azerbaijan is currently in the process of being revised and updated as part of the preparation of the next IP, covering the period 2000-2003.

The Azerbaijan CSE focuses on the country programme activities supported under the Tacis programme, particularly the assistance provided under the 1996-99 IP. As such, it does not specifically address the effectiveness of the other forms of EC assistance that have been provided since 1992. These have included humanitarian assistance, food aid, budgetary support and rehabilitation assistance. The focus of the evaluation on the Tacis programme is justified by the fact that it represents the core of EC assistance for Azerbaijan, with other non-humanitarian programmes being much more limited in scope and scale.

The evaluation was carried out by Mr A. Bird, Ms M. Betley and Mr M. Napodano. It involved a review of documentation on the economic reform process in Azerbaijan, an examination of the project files on the Tacis programme,¹ and a 17-day visit to Azerbaijan. During the visit, an extensive programme of interviews was undertaken with representatives from the Co-ordination Unit, Government ministries, the Azeri business community, civil society/local NGOs, Member States and other aid agencies. The consultants also made two visits to Brussels to meet with officials in the DG for External Relations and SCR.²

The examination of project files consisted of a review of TORs, Inception Reports, and Monitoring Reports for all projects in the Tacis programme, focusing particularly on the period from 1995. Since no separate evaluations of individual Tacis projects had been undertaken, the assessment of the impact of Tacis activities (Chapter 4) was based on the end-of-assignment monitoring reports.

¹ A list of all documents consulted is provided in Annex A.

² The Evaluation Team would like to express its gratitude to officials from the Commission, the Co-ordination Unit in Baku, the Government of Azerbaijan and other Azeri participants for the co-operation it received during the preparation of this Evaluation.

The evaluation report has followed closely both the structure and the issues identified in the Inception Note. The main report is structured as follows:

- Chapter 2 considers the wider environment within which the Tacis programme operates. It covers recent experience of macroeconomic management and structural reform, the international assistance being provided to support economic recovery and reform, and an overview of the Tacis programme in Azerbaijan.
- Chapter 3 analyses the relevance of the Tacis country strategy to the economic reform programme in Azerbaijan. It considers whether this strategy has addressed priority reform actions and how the EC might improve the design of its strategy and the targeting of its assistance. The chapter reflects an *ex ante* analysis of programme design and composition in relation to the reform process.
- Chapter 4 assesses, *ex post*, the impact of Tacis assistance and considers its effect on the reform process and institutional capacity building. The discussion analyses the factors that have influenced, positively or negatively, the outcomes of Tacis activities.
- Chapter 5 reviews the effectiveness of Tacis procedures and their impact on the implementation of the country strategy. In so doing it considers the Tacis programming cycle, project cycle management, the institutional arrangements for programme management, and the arrangements for co-ordination with the international financing institutions (IFIs) and other aid agencies.
- Chapter 6 identifies strategic issues relevant to future country strategy and programming rounds. It makes recommendations on the changes necessary to strengthen the role and effectiveness of EC assistance.

Evaluation Directors, EC Country Strategy Evaluations:

Carlos Montes and Stefano Migliorisi

1. Executive Summary

Overview

1. The issues analysed by the Evaluation include:
 - ◇ the role of the Tacis programme within the wider reform environment in Azerbaijan (Chapter 2);
 - ◇ the relevance of the Tacis country strategy to the economic reform programme in Azerbaijan, focusing on whether this strategy has addressed priority reform actions (Chapter 3);
 - ◇ the impact of the Tacis assistance and its role in the reform process and in the establishment of appropriate legislative, policy and institutional frameworks (Chapter 4);
 - ◇ the appropriateness of Tacis procedures and their impact on the implementation of the country strategy, covering the programming cycle, project cycle management, the institutional arrangements for programme management, and arrangements for co-ordination with the international aid agencies (Chapter 5); and
 - ◇ strategic conclusions and proposals for future EC assistance, focusing on changes necessary to strengthen the role and effectiveness of EC assistance and considering sectors for future co-operation (Chapter 6).
2. The main conclusions of the Evaluation were that the Tacis Programme in Azerbaijan was:
 - ◇ relevant but not sufficiently targeted towards the most urgently needed reforms;
 - ◇ highly visible but with less impact on the reform process than envisaged;
 - ◇ the major provider of technical assistance but relatively isolated from other aid agency assistance and from other EC aid; and
 - ◇ faced with significant limitations in its management, which have tended to reduce its influence and effectiveness.

Background to the Tacis Programme (Chapter 2)

3. The EC has been the major provider of assistance to Azerbaijan since 1992, with the Tacis programme the major source of technical assistance.
 - ◇ EC assistance totalled US\$ 217 million between 1993 and 1998, with technical assistance accounting for around 40% of this amount.
 - ◇ Tacis has operated within a wider framework of EC assistance to Azerbaijan in which food security/budgetary support and emergency assistance have also been significant.
4. Tacis assistance has been provided primarily to government institutions through two main programmes: the Action Programme (AP) which supports projects in Azerbaijan and Inter-State Programme (ISP) which funds regional projects involving more than one country.
 - ◇ Allocations under the AP totalled €58.5 million since 1992. Over the same period allocations under the ISP of relevance to Azerbaijan have totalled €68 million, of which an estimated 30-40% related to projects activities in Azerbaijan.
 - ◇ Tacis support has been concentrated in the energy, enterprise, agriculture and human resources sectors with regional support focused on transport, energy and the environment.

Relevance of the Tacis Programme (Chapter 3)

5. The Evaluation found that the Tacis strategy did not provide clear strategic direction for the Tacis programme in achieving its goal of supporting core elements of Azerbaijan's economic reform programme.
 - ◇ The strategy is contained in a number of related documents. The lack of a single comprehensive strategy document and an explicit plan to meet specific sector objectives reduces the effectiveness of the strategy.
 - ◇ Nevertheless, the main objectives and activities contained in the strategy were found to be consistent across documents and over time.
 - ◇ The strategy was not linked explicitly to the broader framework of economic reform measures being pursued by Azerbaijan with the support of the international community;
 - ◇ Consequently, the EC's role as part of this wider reform programme and in relation to the assistance provided by other aid agencies, was largely implicit within the strategy and had been less influential than it might have been.
6. The majority of Tacis activities are directed to key areas of reform as defined by the Policy Framework Paper prepared by the Government of Azerbaijan (GoA), the IMF and the World Bank.
 - ◇ The objectives of the majority of projects were in line with GoA's broad objectives, although a significant number were operating outside of these broad objectives.
 - ◇ However, the majority of projects were not supporting the specific targets agreed as part of the GoA's economic reform programme. This was particularly true of agriculture, energy and public sector reform.
7. The relevance of Tacis activities has been weakened by an insufficient focus on primary level reforms involving the definition and implementation of legislative, policy and institutional frameworks.
 - ◇ Only one third of Tacis projects had been focused towards legislative reform, the development and implementation of sector policies and strategies, or broad-based institutional restructuring.
 - ◇ Where Tacis assistance had not been preceded by the definition of appropriate legislative and policy frameworks and by institutional reform and restructuring, its impact on institution building had been very limited.
8. EC assistance to Azerbaijan would benefit from stronger strategic guidance, linked explicitly to the achievement of agreed policy goals and backed up by a robust policy dialogue.

Impact of the Tacis Programme (Chapter 4)

9. A variety of factors had influenced the impact of the Tacis programme compared with its intended outcomes.
 - ◇ Tacis had been most successful in the transport and environment sectors. The support provided in these sectors had been influential and had benefited from being well co-ordinated with the assistance provided by other aid agencies.
 - ◇ Projects in the agriculture sector had achieved mixed success. Tacis initiatives in the sector were also adversely affected by the limited support available to the MoA in pursuing broader policy and market reforms.
 - ◇ The Tacis support for SME development was an example of assistance which had been successful in terms of the delivery of the intended outputs, but where the overall impact and sustainability was questionable.

- ◇ Tacis projects had been least successful in the energy and communications sectors where the assistance had suffered from the lack of beneficiary commitment to the reforms being supported.
 - ◇ The impact of Tacis assistance on the overall reform agenda had been greatest in the drafting of legislation and the provision of economic policy support.
10. A variety of factors had affected the implementation and impact of Tacis projects. However, projects were, in general, found to be most effective when:
- ◇ the underlying policy, legislative and institutional reform frameworks in the sector was strong and supportive;
 - ◇ the project design was appropriate and addressed issues of cost effectiveness and sustainability;
 - ◇ there was sufficient flexibility in responding to changing conditions;
 - ◇ the project beneficiary institution was committed to the exercise and was actively involved in it; and
 - ◇ in the infrastructure sectors, Tacis assistance was linked to the availability of investment financing from the IFIs or integrated with other EC budget lines (e.g. the Fizuli rehabilitation programme).
11. The Evaluation recommended the adoption of broader-based sector strategies focusing more on the realisation of policies and the establishment of functions rather than on institution-based initiatives. This would give the Tacis programme greater flexibility to plan interventions linked to the reform process, increase its influence on the development of GoA policies and strategies and facilitate co-ordination with the programme of structural reforms being supported by other aid agencies.

Tacis Programming and Management (Chapter 5)

12. The Evaluation found that the focus of Tacis on TA was appropriate, but that the assistance was insufficiently linked to the broader economic assistance provided to Azerbaijan by the EC and by other donors.
- ◇ TA is needed in a transitional economy like Azerbaijan to support essential legislative, policy and institutional reforms, to encourage private sector investment and to provide an environment in which public investment can be effective.
 - ◇ As the major source of grant financing, it was logical for the EC to include TA as a primary focus in its assistance to Azerbaijan, particularly if this could be used to complement the investment and budgetary support operations of the IFIs.
 - ◇ While the Tacis programme included an appropriate range of TA instruments (including TA projects, Small Projects Programmes and policy advice) the use of the different TA instruments was insufficiently linked and they mostly operated independently of each other.
13. The effectiveness of the Tacis support was affected by significant weaknesses in programming and management.
- ◇ Management is constrained by fragmented responsibilities; contracting procedures which are too lengthy and insufficiently flexible; limited co-ordination with the IFIs and other aid agencies, and insufficient resources within the EC to pursue effective sector policy dialogue.
 - ◇ The programming process is weakened by limited involvement of GoA in the programming cycle, insufficient attention to the experience from previous assistance, and an inadequate focus on the broader framework provided by Azerbaijan's reform programme.
 - ◇ Implementation was affected by the absence of regular technical supervision and backstopping and a tendency to isolate technical assistance from the mainstream activities of the institutions receiving assistance.

- ◇ Although the Tacis programme had an excellent monitoring system, this was not sufficiently integrated into the programming and management of Tacis assistance. It also needed to be supplemented by a monitoring and evaluation process at sector level that looked more explicitly at the outcome of EC assistance.

Implications for Future EC Assistance (Chapter 6)

14. The Evaluation's main recommendation is to move to a sector-wide programme approach facilitated by locally-based professional management capacities. This would ensure better linkage with the assistance provided by other aid agencies, emphasising that EC support is part of a wider reform effort, as well providing a framework for better co-ordination in the use of different EC instruments.
15. The selection of sectors for future assistance should be linked to: evidence of an appropriate and conducive legislative and policy framework; the existence of an effective partnership with the Azeri beneficiary institutions; and complementarity with other EC assistance and with the assistance provided by other aid agencies. Areas which best meet these criteria include:
 - ◇ Promotion of democracy and rule of law, focusing particularly on public sector reform as part of a multi-donor programme, support for legislative reforms, and a coherent programme for supporting the development of civil society.
 - ◇ Agriculture and development of the rural economy, focusing on supporting the development and implementation of appropriate legislative and policy frameworks, the development of markets, and improvements in rural infrastructure, particularly in war-affected areas.
 - ◇ Transport, in which the on-going Traceca assistance should be backed up by assistance in developing appropriate national legislative, policy and institutional frameworks.
16. Areas which were found not to be good candidates for future support included:
 - ◇ Development of infrastructure networks (except transport).
 - ◇ Support for SME development where continued assistance for advisory services to entrepreneurs should be seen as secondary to the more fundamental reforms needed to create a favourable business environment.
17. The Evaluation emphasised the need to improve the management of the EC's programme in order to boost its overall effectiveness.
 - ◇ The EC should undertake a detailed review of the programme management arrangements, focusing particularly on the objectives of EC assistance for Azerbaijan and defining the resources required to manage this assistance effectively.
 - ◇ This review should examine: (i) the appropriate level and professional skill mix needed; (ii) the organisation of roles, responsibilities and levels of authority between the Commission and the proposed Delegation; and (iii) how to integrate the programming function with the operational management function.

2. Economic Reform and International Assistance - Background to the Tacis Country Programme

Azerbaijan has faced a difficult economic transition, with GDP falling by over half during the early 1990s. Subsequent recovery has been narrowly focused around investment in oil and gas. Successful macroeconomic management since 1995 has yet to be matched by progress in structural and systemic reforms. With the prospect of substantial growth in oil and gas production, the Government of Azerbaijan will need to pursue an active reform agenda to achieve broader-based economic development. Azerbaijan has received significant international assistance since 1992 to facilitate its economic transition, with the EC as the major donor. Technical co-operation through the Tacis programme has accounted for around 40% of EC assistance since 1995. Additionally, Azerbaijan has benefited from regional assistance under the Tacis programme. Tacis support has been concentrated in the energy, enterprise, agriculture and human resources sectors with regional support focused on transport, energy and the environment. The main beneficiaries of Tacis assistance have been government ministries and public sector bodies.

A. Introduction

2.1 Sound macroeconomic management, a robust reform process and effective co-ordination between Tacis assistance and other international support can be expected to have a critical influence on the realisation of the Tacis country strategy. This chapter addresses aspects of this wider environment within which the Tacis programme operates. It begins by considering the recent experience of macroeconomic management and structural reform (Section B). It then looks at the broader framework of international assistance to Azerbaijan of which the Tacis programme is part (Section C). Finally it gives an overview of the Tacis programme in Azerbaijan, providing the background to the Evaluation findings presented in subsequent chapters (Section D).

B. The Reform Process in Azerbaijan

Macroeconomic Performance

2.2 Macroeconomic performance in Azerbaijan since 1990 can be characterised by two distinct phases. From 1991 to 1995, the country experienced hyperinflation, uncontrolled budgetary deficits and rapidly falling GDP. In common with the other newly independent states (NIS), Azerbaijan was faced with the collapse in demand for its major industrial products as well as severe disruption to its trading systems. In addition, the need to restore civil order and resolve the conflict with Armenia over Nagorno-Karabakh meant that it was difficult for the Government of Azerbaijan (GoA) to pursue an active agenda of economic reforms. Over this period, GDP declined by an estimated 57% in real terms, with manufacturing output falling by 74%, services by 57% and agriculture by 55%. The decline in output in the oil and gas sector and construction, at around 22%, was less severe (Table 2.1).

2.3 Following agreement with the IMF on an economic reform programme in 1995 and the cease-fire agreement with Armenia, the period since 1996 has been characterised by the restoration of macroeconomic stability and progressive economic recovery. The fiscal deficit was stabilised at around 4% of GDP and inflation fell to single figures. GDP grew by 20% between 1996 and 1998.

This turnaround was largely due to investment activity in the oil industry, driven by the influx of foreign direct investment, which financed 65% of gross total investment. In the oil sector investment was equivalent to 22% of GDP. This resulted in rapid growth in the construction sector where output increased by over 500% between 1995 and 1998. However, with almost three-quarters of this investment being accounted for by imported goods and services, the impact on demand for domestic goods and services was limited, but nevertheless amounted to some 5% of GDP in 1998. Other sectors continued to face severe difficulties. Output in agriculture remained roughly constant between 1995 and 1998, in manufacturing it declined by a further 29%, while the oil and gas sector and services showed modest increases of 2.5% and 10% respectively.

2.4 The majority of the population has continued to face severe hardships. Although employment levels have remained constant, with declining employment in the industrial sector being offset by increased employment in services, real wage levels have fallen dramatically with many workers being placed on unpaid leave or working part-time. In 1995, 68% of the population were estimated to be living on less than the “food only” poverty line.

Output	Billions of Manat at constant 1997 prices							
	1991	1992	1993	1994	1995	1996	1997	1998
Gross Domestic Product (at factor cost)	29,183	21,852	17,519	14,496	12,783	12,949	13,985	15,326
o/w								
Agriculture	7,162	4,731	3,961	3,454	3,212	3,309	3,087	3,207
Oil and Gas Production	3,245	3,034	2,742	2,561	2,532	2,466	2,473	2,791
Manufacturing	5,846	5,722	4,135	2,618	1,539	1,333	1,337	1,100
Construction	1,621	1,459	869	556	606	1,273	2,114	3,213
Services	11,310	6,907	5,811	5,306	4,894	4,569	4,974	5,017
Employment	'000 workers							
	1991	1992	1993	1994	1995	1996	1997	1998
Total Employment	3,047	2,922	2,917	2,851	2,837	2,895	2,902	2,914
o/w								
Agriculture	978	1,015	944	899	874	921	842	836
Industry	707	655	604	565	537	447	395	393
Services	1,365	1,253	1,368	1,387	1,426	1,527	1,666	1,684

Source: Azerbaijan Statistical Committee/World Bank

The Economic Reform Programme

2.5 Following the earlier establishment of an independent Central Bank and introduction of a national currency, the manat, Azerbaijan has followed a coherent economic reform programme. Since 1996, this has come within the framework of a three-year Enhanced Structural Adjustment Facility (ESAF) negotiated with the IMF and supported by the World Bank and a number of other aid agencies. The programme has emphasised macroeconomic stabilisation, structural reform and addressing social needs:

- Macroeconomic stabilisation policies have involved tightening of monetary and credit policies, cuts in government expenditure, and the elimination of general commodity subsidies. These achieved considerable success in reducing the budget deficit and controlling inflation and have helped to set the framework within which economic growth can occur.
- Structural reform policies have focused on: (i) banking reform; (ii) price and trade liberalisation; (iii) reducing GoA's involvement in production and trade through the initiation of a comprehensive programme of privatisation; (iv) legislative reforms in the areas of property rights, commercial law and bankruptcy; and more recently (v) reform of the public service.
- Social needs have been addressed through a package of measures aimed at: (i) restructuring the social safety to make it more cost effective and better targeted towards the most needy groups; (ii) eliminating pension arrears and establishing a financially

sustainable and fair pensions system; and (iii) restructuring of the employment service towards retraining, job service and public relief works. Measures have also been taken to protect safety net expenditure allocations. More recently a programme of reform in the health and education sectors has been initiated. This is aimed at addressing problems of deteriorating quality and access and achieving a more efficient use of budgetary resources.

2.6 As in other transition economies, implementation of systemic and structural reforms has proved more difficult and progress has been uneven. During 1999, GoA demonstrated a renewed commitment to the reform process with the adoption of the 1999-2000 privatisation programme, and discussions with the World Bank and other aid agencies on a major programme to support the restructuring and reform of public sector institutions and expenditure (Box 2.1).

Box 2.1: Institutional Reform in Azerbaijan

The public sector institutional structure in Azerbaijan affects the ability of the EC and other aid agencies to support economic reforms. Compared with other countries, Azerbaijan fares poorly on indicators of governance, government credibility and the extent of corruption. Until recently, initiatives to address these issues were minimal or insignificant. This reflected a policy vacuum in which there was: (i) limited commitment to such reforms; and (ii) insufficient administrative and institutional capacity to handle the complexity of the reform process. A highly centralised structure and decision-making process exacerbated this problem.

The need for a transparent and accountable public sector is critical at this stage of Azerbaijan's economic development. With Azerbaijan expected to become a significant oil exporter in the coming decade, oil revenues will act as a windfall gain to the economy, and proper management of these revenues is needed to avoid problems of "Dutch disease" (poor governance and corruption, economic distortions and social inequities) which characterise many single-commodity economies. Without reform of the public sector, gains from the first-generation macroeconomic and sectoral reforms are in danger of being dissipated by the lack of implementation of second-generation institutional reforms. Planned initiatives over the next few years are expected to focus on comprehensive public sector reforms to improve governance and judiciously manage the expected inflow of oil revenues, so that these can lay the foundations for sustainable and equitable development.

Source: World Bank, draft Public Sector Reform Adjustment Credit (PSRAC) proposal, 1999.

Future Economic Prospects

2.7 Compared with other NIS, medium-term prospects for economic growth in Azerbaijan are relatively good. Growth will continue to be led by developments in the oil and gas sectors although prospects in these sectors are uncertain, reflecting uncertainties both over international prices and in discovering new oil resources in Azerbaijan. However, even under relatively conservative assumptions, GDP is expected to increase by 9% per year and to double between 1997 and 2005. Growth in the non-oil and gas sectors is projected to be much lower, at around 5% per year, and only 3% per annum in agriculture and industry¹. Substantial exploitation of oil and gas resources could result in significantly higher growth rates towards the end of this period.

2.8 These projections highlight the major challenge facing policy-makers in Azerbaijan. In particular, GoA will need to pursue an active reform agenda that provides an enabling framework for development in agriculture and industry so that the benefits of economic growth can be more broadly spread. Second, Azerbaijan will need to put in place the policy, legal, administrative and institutional frameworks necessary to handle the rapid expansion of oil and gas production, and to manage the revenues generated. The next 5-6 years will therefore be a critical period, highlighting the need for continued international support for the reform process. The major public sector reform programme currently being developed by the GoA with the assistance of the World Bank reflects this priority.

¹ Source: World Bank.

C. International Assistance for Reform and Recovery

Total Aid Flows

2.9 Since 1992, Azerbaijan has received significant international support for economic reform and recovery. External assistance between 1992 and 1998² totalled US\$ 638 million (Table 2.2).

	US\$ million						Total
	1993 [#]	1994 [#]	1995	1996	1997	1998 (partial)	
Technical Co-operation of which EC	9.3	3.3	20.8	17.9	15.3	25.4	92.0
Development Food Aid		1.7	13.3	16.2	9.0	14.3	54.6
Emergency Assistance			26.5	25.1	14.6	7.0	73.1
Other	12.6	142.4	48.5	37.1	138.0	40.1	418.7
Total ODA	21.9	147.4	109.0	96.3	177.0	86.8	638.4

[#] The breakdown by types of assistance for 1993 and 1994 is incomplete.
Source: OECD (DAC Database)

2.10 Between 1995 and 1998, years for which a more detailed breakdown is available, technical co-operation accounted for 20% of total assistance, food security assistance for 12% and emergency assistance for 16%. The large increase in support during 1997 reflects the substantial inflows of assistance following the conclusion of the three-year ESAF agreement in 1996.

2.11 The multilateral agencies have provided 78% of all development assistance, with the EC providing 34% and IDA 22% (Table 2.3). EU member states have been the major source of bilateral aid, followed by the USA. Among the EU member states France, Germany, Sweden, the Netherlands and the United Kingdom have been the main providers of aid.

	US\$ million						Total
	1993	1994	1995	1996	1997	1998 (partial)	
Total Multilateral	17.0	121.2	77.0	70.9	160.9	51.0	497.9
IMF					76.5		76.5
IDA			30.2	35.8	55.4	20.6	142.0
United Nations	9.7	17.4	17.0	4.3	6.6	3.1	58.2
EC	6.9	102.8	28.7	30.1	22.0	26.2	216.7
Other	0.4	1.0	1.0	0.7	0.5	1.0	4.5
Total Bilateral	4.9	26.2	32.0	25.3	16.1	35.8	140.4
EU Member States	4.5	4.5	15.4	7.6	7.6	22.8	62.5
United States		13.0	11.0	9.0	2.0	5.9	40.9
Other	0.4	8.6	5.6	8.7	6.5	7.2	37.1
Total ODA	21.9	147.4	109.0	96.3	177.0	86.8	638.4

Source: OECD (DAC Database)

EC Assistance

2.12 The EC has been the largest donor to Azerbaijan, although since 1995 the IMF and World Bank have become more significant sources of funding. EC support between 1993 and 1998 totalled US\$ 217 million. Almost half of this was disbursed during 1994 when there was a large food and

² Note: data for 1998 are incomplete and therefore can be expected to underestimate total development assistance.

emergency assistance programme. In subsequent years, disbursements have averaged US\$ 27 million annually, representing 23% of all assistance received during the 1995-98 period (Table 2.4).

	US\$ million				Total
	1995	1996	1997	1998 (partial)	
Technical Co-operation ¹	10.35	7.45	7.05	18.32	43.2
Development Food Aid		10.15	7.04	7.04	24.2
Emergency Assistance	18.39	12.49	7.88	0.82	39.6
Total	28.7	30.1	22.0	26.2	107.0

Note: 1. Excludes Inter-State Programmes.
Source: OECD (DAC Database)

2.13 Technical co-operation expenditure under the Tacis programme accounted for 40% of total EC assistance between 1995 and 1998. Development food aid, most recently in the form of budgetary support linked to the implementation of measures aimed at improving food security, accounted for a further 23% of EC assistance over the period.

D. The Tacis Programme

Overview

2.14 The Tacis programme was established in 1992 following Azerbaijan's declaration of independence from the Soviet Union. The programme was intended to promote transition to a market economy and towards a more democratic society. Consistent with this aim, the programme focused on the following activities:

- the provision of policy advice and the transfer of expertise from the EU to Azerbaijan to develop the capacities to manage the economic reform process;
- support for the establishment of conditions favourable to private investment and thus to accelerate development of the private sector; and
- support for regional co-operation and the development of regional networks to facilitate the development of the market economy.

2.15 Tacis assistance has been targeted at a limited number of key reform areas. These have included: (i) general policy advice, particularly legal and institutional support; (ii) restructuring and strengthening of the energy sector; (iii) enterprise restructuring and development, including in the agriculture sector; (iv) development of infrastructure, including transport and telecommunications; and (v) human resources development, including public administration, education, employment and social protection. Tacis support has primarily been for technical assistance (TA) in the areas of policy/strategy advice, institutional reform, and the preparation of feasibility studies for capital programmes to be funded by the international financing institutions and other aid agencies.

2.16 Since 1996, activities under the Tacis programme have been regulated by a Partnership and Co-operation Agreement (PCA). This sets out the areas of co-operation between the EU and Azerbaijan. The aims of the PCA include: (i) the development of close political relations by starting a regular dialogue on political issues; (ii) the fostering of trade and investment and harmonious economic relations; (iii) the provision of groundwork for mutually beneficial economic, social, financial, scientific, technological and cultural co-operation; and (iv) support for Azerbaijan's efforts to consolidate its democracy and to complete the transition to a market economy.

Tacis Instruments

2.17 Box 2.2 summarises the key features of the main Tacis instruments.

Box 2.2: Tacis Instruments		
Instrument	AP/ISP Allocation	
	1996-97	1998-99
<p>A. General Technical Assistance Projects</p> <p>Action Programme Projects submitted by GoA for incorporation into the AP. Can be categorised into 4 main groups: (i) development of sector legislative and policy frameworks; (ii) institutional reform and capacity building; (iii) investment feasibility studies; and (iv) technical, advisory and training services. Additionally, under the 1996-97 AP, rehabilitation activities in Fizuli District were financed. Projects of up to 24 months duration. Funds consultant services, equipment support and training. Average size of projects fell from € 1.7 m in 1996-97 AP (6 projects) to € 1.2 m in the 1998-99 AP (10 projects).</p>	€ 10.5 m	€ 12.7 m
<p>Inter-State Programme Operates similarly to AP but at regional level and requires agreement by all participating states. Currently operates in transport, energy and environment sectors.</p>	€ 68 m since 1996 for projects relevant to Azerbaijan.	
<p>B. Small Projects Programmes</p> <p>Policy Advice Programme Responds to requests for advice in the following areas: (i) macroeconomic and fiscal policy; (ii) financial services; (iii) sectoral policy; (iv) investment policy; (v) social policy; (vi) structure of government; (vii) institution building; (viii) legal advice; (ix) environment policy. Experts usually arrive on the ground within 6-8 weeks after submission of initial request. Maximum size of requests around € 0.2m.</p>	€ 5.03 m	€ 2.80 m
<p>Civil Society <u>City Twinning</u>: assistance to local authorities in improving their administrative and technical services and working practices through partnership with one or more local authorities in the EU. Provides training attachments to participating EU local authorities and follow up assistance for up to 2 months in implementing knowledge acquired. <u>Link Inter-European NGOs (LIEN) Programme</u>: assists European and Azeri NGOs "working together to ensure better social integration of the deprived and marginalised sections of the population". Contributes up to 80% (max. € 0.2 m) of project cost.</p>	€ 0.50 m	€ 0.40 m
<p>Enterprise Support <u>Productivity Initiative Programme</u>: supports improvements in enterprise management practice. Takes 3-5 middle-level managers and places them with an EU host company for 10 weeks. Trainees also attend pre and post-placement, and follow-up seminars. <u>European Senior Service Network</u>: enables enterprise managers to access know-how from retired European managers and professionals who are attached to the enterprise for assignments of up to 6 weeks duration. <u>Other Programmes</u>: funded in the 1996-97 AP: (i) the Mercure programme to support co-operation between EU and NIS Chambers of Commerce; (ii) the Europartenariat Scheme to support contacts between Azeri and EU SMEs; (iii) the Joint Venture Programme to assist the creation of joint ventures between Azeri and EU enterprises.</p>	€ 0.68 m	€ 0.20 m
<p>International Standards and Commitments <u>Customs</u>: assists the modernisation and strengthening of the customs services through the development of customs laboratories, investigation capacities, and computerisation. Provides specialist equipment, training and study tours. <u>Statistics</u>: Assists the development of statistical systems to meet the information needs of a democratic society and a market economy. Provides TA, support for pilot surveys, data collection and publication and training. <u>Other Programmes</u>: funded in the 1996-97 AP: (i) standards and certification; (ii) intellectual property protection; and (iii) industrial property protection.</p>	€ 1.85 m	€ 0.50 m
<p>Education and Training <u>Trans-European Co-operation Scheme for Higher Education (TEMPUS)</u>: Supports requests from higher education institutions in Azerbaijan to restructure and develop curricula, upgrade teaching facilities, and improve university administration. Funds co-operation projects between higher education institutes in EU and partner countries. Projects up to 2 years duration with maximum funding of € 0.2 m.</p>	€ 1.00 m	€ 1.00 m
<p>C. EBRD Bangkok Facility Finances TA aimed at improving the quality of selection, appraisal, design and implementation of investments supported by EBRD. Funds allocated on a project-by-project basis with no separate programme allocation for Azerbaijan.</p>	Total of € 3.5 million committed at 30/6/98	

2.18 Tacis operates in Azerbaijan through two main programmes: the Action Programme (AP) which finances national projects solely benefiting Azerbaijan, and the Inter-State Programme (ISP) which finances projects benefiting a number of countries in the region. Both programmes follow a similar four year indicative programming cycle within which project allocations are made annually under the ISP or biannually under the AP³.

2.19 The assistance provided by Tacis is delivered through three main instruments: general TA projects, the Small Projects Programmes (SPPs) and TA support for EBRD activities through the Bangkok Facility. Within the SPPs a distinction can be drawn between the Policy Advice Programme (PAP) which funds small TA projects costing up to €200,000 and the other SPPs which operate on a multi-country basis offering more narrowly based facilities (e.g. Tempus and City Twinning) or advice in a specific technical areas (e.g. Statistics and Customs).

Funding Allocations

2.20 Annex C lists all Tacis projects for which AP funding was committed between 1992 and 1999. It also lists the main projects in the 1996-1999 ISP in which Azerbaijan was a beneficiary.

Action Programme Allocations

2.21 Allocations under the AP since 1992 have totalled €58.5 million (Table 2.5). Energy, a focal sector for Tacis support, has received the highest allocation (€14.5 m) followed by the various SPPs (€12.2 m); Enterprise Restructuring and Development (€113 m) and Human Resources Development (€8.3 m).

Sector	Action Programme					Total
	1992	1993-94	1995	1996-97	1998-99	
Energy		3.6	2.5	4.8	3.6	14.5
Transport					2.4	2.4
Telecommunication				1.0		1.0
Rehabilitation				3.0		3.0
Enterprise Restructuring and Dev.	2.7	1.9	1.8	0.4	4.0	10.8
Agriculture ²	2.4			1.3	1.0	4.7
Human Resources Development	3.0	1.8	1.3		2.2	8.3
Small Projects Programmes ³	4.4			5.0	2.8	12.2
Reserves		0.7	0.4	0.5		1.6
Total	12.5	8.0	6.0	16.0	16.0	58.5

¹ Excludes ISP allocations.
² Includes Regional Agro-Support Units Project included in the 1996-97 AP under enterprise restructuring and development.
³ SPPs include: Enterprise Support (€0.68 m), International Standards and Commitments (€1.85 m), Tempus (€1.0 m); Civil Society (€0.5 m), and Policy Advice (€1.0 m)
Source: Tacis Action Programmes

Inter-State Programme Allocations

2.22 Allocations to inter-state projects of relevance to Azerbaijan have totalled €68 million since 1996, of which around 30%-40% would represent support for activities within Azerbaijan. There are five main initiatives that have been supported by the ISP:

³ The Tacis programming cycle is reviewed in Chapter 5.

- TRACECA (Transport Corridor Europe-Caucasus-Asia – average regional annual budget €10 m), assisting the development of transport links between Central Asia, the Caucasus and Europe;
- INOGATE (Inter-State Oil and Gas to Europe - average regional annual budget €10-12 m), supporting the rehabilitation and modernisation of regional oil and gas pipelines and other infrastructure;
- Environment Programme (average regional annual budget €10 m) assisting the development of NIS environmental policies and promoting concrete actions at regional level to reduce the risk of environmental degradation;
- RARP (Rural Agricultural Reform Programme – total regional budget €8 m) assisting in the reform of agricultural markets and infrastructure; and
- Justice and Home Affairs Actions (average regional annual budget €3 m), promoting regional co-operation on security issues such as combating drug production/trafficking and money laundering, and developing a common approach to immigration issues.

Composition of Tacis Assistance

2.23 There have been marked differences in the nature of the assistance provided under the AP and ISP. Through the implementation of Traceca and Inogate initiatives, the ISP has been focused on infrastructure development, often linked to the securing of downstream investment financing. The limited capital financing available under the programme has been directed towards the replacement of essential infrastructure and equipment.

2.24 By contrast, AP allocations have been largely directed towards policy advice and institution building. Out of 46 project and SPP allocations since 1992, 63% had institution building as a major element. Other projects have supported training and feasibility studies. Only one project, Rehabilitation of Fizuli District, included a significant investment component⁴.

2.25 The average size of project allocations, excluding SPPs, has been €1.2 million and has varied little between APs. Project allocations from the ISP have tended to be larger averaging €1.9 million.

Beneficiaries

2.26 The principal beneficiaries of Tacis projects have been GoA ministries and institutions. Out of 36 individual projects under the AP, slightly over 60% were directed mainly to government institutions. Around a quarter of projects had multiple beneficiaries. This occurred most frequently in the energy sector. In the absence of national policy and regulatory bodies, different project components have been the responsibility of the three national energy companies, SOCAR, Azerigas and Azerenerji, often with the Department of Fuel and Energy in the Ministry of Economy included as the co-ordinating body for the sector.

⁴ In co-ordination with ECHO and other aid agencies, this project has supported rehabilitation of basic infrastructure in transport, water supply, and electricity, and supplied basic agricultural inputs, facilitating the return of displaced persons to Fizuli District following the Nagorno-Karabakh conflict.

3. Relevance and Appropriateness of the Tacis Strategy

The Tacis Strategy did not provide clear strategic direction for the Tacis programme for Azerbaijan in achieving its goal of supporting core reforms aimed at facilitating the transition to a market economy and reinforcing democracy. This was partly due to the lack of a single comprehensive strategy document and partly to the lack of clarity in the strategy documents themselves. Nonetheless, the majority of Tacis activities are directed to key areas of reform as defined by the reform programme concluded between the Government of Azerbaijan, the IMF, World Bank. The relevance of Tacis activities is weakened, however, by the fact that inputs are directed to supporting non-primary level institutional reforms, rather than supporting the institutional development required to facilitate necessary economic restructuring. Stronger strategic guidance for the EC programme, linked explicitly to the achievement of government policy goals, would strengthen the EC programme considerably.

A. Introduction

3.1 Chapters 3-5 contain the evaluation of the EC's strategy and programme in Azerbaijan. The focus in this chapter is on the relevance of the Tacis programme to the process of reform in Azerbaijan. It aims to address the question of whether Tacis activities are supporting key reform policies and interventions. In addition, the chapter analyses whether or not the Tacis strategy provides sufficient guidance for the programme and facilitates co-ordination with the activities of other aid agencies in the implementation of reforms. The analysis focuses on the design of the Tacis programme (i.e. whether the objectives and methodology of programme activities were in themselves relevant to Azerbaijan's economic reforms). Later, in Chapter 4, we consider the outcome of the programme (i.e. whether programme activities resulted in changed institutions). Thus, the analysis in Chapter 3 is *ex ante*, whilst that in Chapter 4 is *ex post*.

3.2 The chapter begins with a description and an assessment of the Tacis strategy for Azerbaijan that focuses on whether the activities supported have been consistent with the stated goals and objectives of the Tacis programme (Section B). It then goes on to consider the relevance of the Tacis programme to the reform programme being pursued by the Government of Azerbaijan (Section C). Finally, it identifies issues to be considered under future programming rounds (Section D).

B. The Tacis Strategy in Azerbaijan¹

Overview of the Strategy

The basis for the strategy is not clear

3.3 One of the main problems with evaluating the EC's strategy for Azerbaijan is that the strategy itself is not clear. There is no single comprehensive document in which the strategy is set out. Elements of the EC's strategy for the period 1996-99 are contained in the Partnership and Co-operation Agreement (PCA), the Indicative Programme Strategy Paper (IPSP), the Multi-Annual Indicative Programme (IP) and the Action Programmes (APs)². In addition, the Tacis Regulations³

¹ The focus in this section is on the content of the strategy, whilst Chapter 5, Section C addresses the process of preparing the strategy.

² Details of these documents are discussed further in Chapter 5.

establish the general objectives, the policy framework and basic guidelines for the Tacis programme as a whole, within which the Azerbaijan programme operates. Box 3.1 summarises the key elements of each of the documents.

Box 3.1: Comparison of EC Strategy Documents for Azerbaijan			
Strategic Document	Goals	Objectives	Strategies/Activities
Tacis Regulation	Bring about the transition to a market economy and reinforce democracy	To assist the economic reform process in the NIS through the provision of technical assistance and limited capital assistance	Programmes in the following areas: <ul style="list-style-type: none"> ▪ human resources development, including education, public administration reform, and legal assistance; ▪ enterprise restructuring and development, including privatisation and restructuring; ▪ infrastructure; ▪ energy; ▪ food production; ▪ environment.
PCA	Accelerate the economic transformation of Azerbaijan	To develop a political dialogue between the EU and Azerbaijan; To support the GoA's efforts to strengthen democracy, develop its economy and complete its transition to a market economy; To promote trade and investment to support economic development; To support the closer alignment of Azerbaijan with Western Europe through Co-operation in legislation, economic and social development and other field.	Programmes which promote the following: <ul style="list-style-type: none"> ▪ democracy; ▪ principles of international law and human rights, market economy, free trade; ▪ European standards for business and investment; ▪ European standards for legislation; ▪ economic development.
Indicative Programme Strategy Paper	Promotion of regional co-operation <i>(not specifically stated; implicit from PCA)</i>	Based on PCA objectives (above)	Programmes in the following areas: <ul style="list-style-type: none"> ▪ infrastructure development; ▪ private sector development, including trade, industry and services, environment and agriculture; ▪ human resource development.
Multi-Year Indicative Programme	Promotion of regional co-operation Transformation to an open market economy Economy based on trade & investment, not aid <i>(not specifically stated; implicit from PCA)</i>	Based on PCA objectives (above) and general Tacis objectives: <ul style="list-style-type: none"> ▪ to build the framework for a market economy; ▪ to focus on human resource development and transfer of know-how; ▪ to support the establishment of a new legal and institutional framework; ▪ to strengthen the democratic process; ▪ to support good governance and decentralisation; ▪ to support civil society participation. 	Programmes in the following areas: <ul style="list-style-type: none"> ▪ development of energy and transport infrastructure; ▪ private sector development; ▪ education and government reform.
Inter-State Programme	Stem and reverse the current problems of economic decline, and lay foundations for future economic growth in the region; Contribute to the rebuilding of trading networks between the NIS on the basis of market relations and economically efficient transactions.	To bring EU experience to bear to assist countries in the NIS to define and implement appropriate forms of economic co-operation.	Programmes in the following areas: <ul style="list-style-type: none"> ▪ transport; ▪ energy; ▪ telecommunications; ▪ environment.

³ The current Regulations date from 1996. Previous regulations were approved in 1991 and 1993.

But the desire to be central to the reform process is explicit

3.4 In each of the strategic documents, the aim of the EC assistance to be central to the economic reform programme was clear. The Tacis Regulation⁴ emphasises that EC support will assist the economic reform process in the NIS to bring about the transition to a market economy and reinforce democracy. It highlights the need to establish priorities for EC assistance, concentrating on sectors in which NIS countries have taken concrete measures to promote reform. It states that the Indicative Programme (IP) should define the objectives and guidelines for EC assistance in prioritised areas of reform. The main areas for EC assistance are listed as: (i) human resources development, including education, public administration reform, and legal assistance; (ii) enterprise restructuring and development, including privatisation and restructuring; (iii) infrastructure; (iv) energy; (v) food production; and (vi) environment.

3.5 The Partnership and Co-operation Agreement (PCA) defines the overall areas of strategic co-operation between the EU and Azerbaijan, focusing particularly on political and trade issues. The PCA is based on the assumption that partners have the medium-term capacity to move away from an aid-based relationship towards one based on trade and investment. Key elements of the PCA with respect to the EC's strategy include:

- an emphasis on developing a political dialogue between the EU and Azerbaijan;
- support for the GoA's efforts to strengthen democracy, develop its economy and complete its transition to a market economy;
- promotion of trade and investment to support economic development; and
- a framework for co-operation in the fields of legislation, economic and social development, science and technology and culture, thereby promoting the closer alignment of Azerbaijan with Western Europe.

3.6 The PCA is explicit in setting out the role of technical assistance within the EC's assistance programme. The principles governing the provision of technical assistance state that:

- the objective of technical assistance will be to accelerate the economic transformation of Azerbaijan;
- technical assistance should reflect established priorities which should take into account Azerbaijan's needs, sectoral absorption capacities and progress with reform; and
- technical assistance should be closely co-ordinated with assistance from bilateral agencies, the World Bank and EBRD.

3.7 The Indicative Programme Strategy Paper (IPSP)⁵ is intended to provide the basis for the Multi-Year Indicative Programme (IP)⁶, which in turn gives the framework for the implementation of Tacis activities during the relevant period. The IP may be seen as the main strategic document for the Tacis programme in Azerbaijan. The goals of the Tacis programme in Azerbaijan as stated in the 1996-99 IP were: (i) support for the continued transformation to an open market economy; (ii) the promotion of regional co-operation in order to promote sustainable development in the Transcaucasus; and (iii) assistance in the process of moving away from being aid-dependent towards greater trade and investment.

3.8 In order to achieve these goals, Tacis assistance is focused on the following general objectives, also observed in the Azerbaijan programme:⁷

- building the framework for a market economy;
- focusing on human resource development and transfer of know-how;

⁴ Council Regulation No 1279/96, dated 25 June 1996.

⁵ The discussion in this section focuses on the Strategy Paper for 1996-99.

⁶ The discussion in this section focuses on the 1996-99 Indicative Programme since it is the most recent.

⁷ Source: Evaluation of Tacis Country Programme in Russian Federation, Draft Final Report, SCR,1999.

- supporting the establishment of a new legal and institutional framework;
- strengthening the democratic process;
- supporting good governance and decentralisation; and
- supporting civil society participation.

3.9 The activities through which the EC programme in Azerbaijan expected to work to achieve these objectives in the 1996-99 IP included:

- the development of energy and transport infrastructure, particularly for the oil and oil-related industries;
- private sector development, including large-company restructuring, financial sector restructuring, agricultural sector reform and environmental policy development; and
- reform of government sectors, specifically education policy development, civil service reform, and democracy development

3.10 Finally, the strategy for the Inter-State Programme (ISP) focuses on regional co-operation within the Caucasus and Central Asia as a whole. Its objectives are: (i) to define and implement appropriate forms of economic co-operation in order to help stem and reverse the current problems of economic decline; (ii) to lay the foundations for future economic growth in the region; and (iii) to contribute to the rebuilding of trading networks between the CIS on the basis of market relations and economically efficient transactions. The specific areas in which the EC works to achieve these objectives include infrastructure networks (transport, energy and telecommunications) and the environment. Complementarity with the APs is emphasised, with programmes in the AP aimed at supporting institutional development, while ISPs are aimed at supporting the physical infrastructure needed to facilitate economic development.

Assessment of Tacis Strategy

3.11 The Evaluation assessed the Tacis strategy for Azerbaijan in relation to the objectives and activities contained in the IP. The analysis considered: (i) the consistency of EC goals and objectives across the different strategy documents and over time; (ii) the linkage between strategic goals and objectives and the strategies and activities through which they are to be achieved; (iii) the linkage between Tacis strategy and the GoA's broader programme of economic reforms; and (iv) the co-ordination between the Tacis strategy and the assistance from other aid agencies.

Goals and objectives are consistent.

3.12 There appeared to be consistency in goals and objectives among the different strategic documents (PCA, IPSP, and IP) relating to EC assistance strategy in Azerbaijan, with all post-1996 documents being clearly founded on the PCA. Each document emphasised support for the process of economic reform and restructuring thereby facilitating economic growth and democratisation. The promotion of regional co-operation was another important goal. Although not always explicitly linked, the objectives of the different elements of EC and Tacis assistance were consistent with these goals. The strategy documents also showed consistency over time with both the 1993-95 and 1996-99 IPs emphasising support for the transition to a market economy and democracy building.

But the link between objectives, strategies and activities is weak

3.13 In each of the strategy documents, there is very limited discussion and analysis of the strategies and approaches to be followed in order to achieve programme objectives. The PCA is broader and highlights specific strategic directions to meet EC objectives. However, there no explicit link between the PCA and the selection of sectors and activities in the IP⁸. These weaknesses lessen the

⁸ The selection of sectors and activities in both IPs was similar and included: (i) energy as a facilitator of economic transition; (ii) enterprise restructuring and development, particularly privatisation, restructuring of the industrial

impact of the strategy documents, prevent clear strategic guidance for the programme, and make *ex-post* internal or external evaluations difficult to conduct.

The Strategy is not sufficiently linked to the broader programme of economic reform

3.14 The goals and objectives of Tacis assistance stress support for core economic reforms. However, the Evaluation found the strategy to be insufficiently linked to the broader programme of reforms being pursued by Azerbaijan with the assistance of the IFIs and international donor agencies. The basis for the IPSP, the IPs and the APs is a brief background section on progress with macroeconomic and structural reforms. There is no comprehensive and systematic listing of reform measures being undertaken by sector, the inclusion of which would enable Tacis activities to be better targeted towards achieving specific policy goals.

The Strategy was not co-ordinated with the assistance of other aid agencies

3.15 Both the PCA and the IPs emphasise the importance of co-ordinating activities with other aid agencies (Box 3.2). However, the strategy includes only limited reference to the activities of these agencies, and EC planned activities were not explicitly linked to providing complementary assistance. The IP contains reference to particular projects being undertaken by the World Bank but is not comprehensive. There is no systematic listing of aid agency activities (both completed and planned) by sector and by aid agency. This information would not be difficult to obtain, since the multilateral agencies publish or make available their strategic assistance programmes (e.g. the World Bank's Country Assistance Strategy) and the major share of bilateral assistance comes from EU Member States. Closer co-ordination Tacis activities with the capital and financial assistance provided by the IFIs and other donors could be expected to significantly enhance the impact of EC assistance.

C. Relevance of Tacis Programme to Azerbaijan's Reform Programme

3.16 The Evaluation undertook an analysis of the relevance of Tacis activities over the past five years to Azerbaijan's reform programme. This was based on the premise that technical assistance has a potentially key role to play in the transition of Azerbaijan's economy through assisting the processes of legislative, policy and institutional reform necessary to establish a market economy closely linked to Europe and centred around European standards. As the largest provider of technical assistance in Azerbaijan, Tacis activities should be at the centre of such institutional reforms.

Elements of the Reform Process in Azerbaijan

3.17 Any assessment of the relevance of the Tacis strategy should start from an understanding of the reform process that is to be supported. In so doing, the Evaluation considered both the process of economic transition and the stated policies through which transition was to be achieved.

sector and financial sectors; and (iii) human resources development, including education, and social security/social protection.

Box 3.2: Aid Agency Assistance to Azerbaijan's Reform Programme	
Reform Area	Aid Agency Activities
Public sector reform	DFID – TA for civil service reform planning WB – preparing major SAC programme (Public Sector Reform)
Legal/judicial reform	GTZ – assisting in drafting Civil Code, Criminal Code, etc. Council of Europe – comments on draft laws World Bank – preparing judicial reform TA Tacis – TA for legislation in energy sector
Private sector development	Tacis – TA for preparation of large privatisation projects EBRD – SME support, privatisation, banking World Bank and IFC – preparing SAC programme for banking, insurance privatisation, legal framework for private sector, corporate governance British Know-How Fund – TA for legal environment for foreign direct investment
Financial sector development	USAID – financial sector institution building EBRD – financial sector institution building, privatisation of International Bank UNDP – preparation of new Chart of Accounts, based on International Standards
Agriculture and irrigation	Tacis – agricultural finance, advisory services UNDP – microfinance IFAD – community development USAID, IFC, EBRD – credit lines World Bank – preparing SAC programme (Agricultural Development)
Infrastructure rehabilitation (transport, energy, water & sewerage)	World Bank – preparing SAC programme (Privatisation of Water Supply), development of Water Law and Water Resources Plan, SAC programme (Privatisation of Utilities/Infrastructure) EBRD – water project, air traffic control, Baku Port, power/gas sectors EC Traceca – TA for planning, trade facilitation, institutional strengthening Kuwait Fund/Islamic Bank – road upgrading
Environmental protection	UNDP – Institutional Capacity, Rehabilitation of Sumgait EC – Institutional Capacity in Caspian GEF – Regional Caspian Environment Programme Numerous bilaterals – assistance with National Environmental Action Programme (NEAP) World Bank – assistance with NEAP
Education	World Bank – preparing Programme Loan Unicef – community involvement Soros – local textbook development
Health	World Bank – preparing Health Project UNICEF – pilot district health programmes UNDP/NGOs – reproductive health EBRD – private hospital
Social protection	World Bank – preparing Pension and Social Protection Project and Poverty Alleviation Project Tacis – limited TA for pension reform British Know-How Fund – assistance with individual accounts ILO – social sector review IMF – assistance with systemic pension reform UNICEF – social statistics database
Source: World Bank, Country Assistance Strategy, 1999.	

The process of economic transition

3.18 At a conceptual level, the process of transition to a market economy can be considered as covering three overlapping processes: (i) macroeconomic stabilisation; (ii) structural reforms involving the design and implementation of legislative and institutional change; and (iii) growth and development (Box 3.3). Structural reforms, for instance, are intended to support and to cushion the effects of macroeconomic stabilisation. However, in practice, for most transitional economies stabilisation has been accomplished first, whilst structural reforms have taken significantly longer to accomplish. Sustained economic growth, involving integration with the wider international economy, requires significant progress to have been made on structural reforms.

Box 3.3: Typical Reforms During the Transition to Market Economy

Conventional wisdom suggests that the various stages of transition and economic reform can be summarised as follows.

- Stage 1 involves *macroeconomic stabilisation* (curbing inflation and maintaining fiscal and monetary discipline) and a start to the systematic changes to the process of transition to a market-oriented economy, including:
 - liberalisation of prices and domestic trade through reduction of subsidies to consumer and producer prices and deregulation of price setting;
 - balancing government's budget, including raising taxes and cutting public spending;
 - restrictive monetary policy to achieve positive real interest rates;
 - incomes policy;
 - foreign trade liberalisation, including current account convertibility and the introduction and/or devaluation of domestic currency;
- Stage 2 involves consolidating or managing the transition, with an accent on building the foundations of a market economy through structural reform involving legislative and institutional change, including:
 - launching of privatisation programme and dismantling of former state monopolies;
 - introducing free competition rules, anti-monopoly laws and free-entry in the market for business creation;
 - introducing a free and flexible labour market;
 - reforming the banking and financial sectors and setting up of capital markets;
 - reforming the tax system;
 - developing a social safety net meant to replace the former all-embracing protection system and to cushion the impact of the austerity measures and the structural transformation;
 - initiating an industrial policy;
 - public administration reform;
- Stage 3 involves the process of *growth and development*, or “catch up” (in per capita GDP growth levels) to OECD countries. It involves supporting investment in physical and institutional infrastructure, and integration into the world economy, including world trading institutions such as WTO and the EU.

Different aspects of transition and reform proceed at different rates. There is a very wide divergence of experience amongst different transition economies, reflecting differences in the political situation, differences in starting points and different shocks during the transition. Typically, the first phase is achieved relatively quickly, whilst many countries get bogged down during Stage 2, particularly since structural change takes time and the new institutions need to be designed. Azerbaijan can be considered to be in Phase 2 of transition, as are most NIS countries.

Source: Lavigne, M, *The Economics of Transition*, Macmillan Press Ltd, 1999.

The policies to support transition

3.19 The development of a coherent Tacis strategy to reflect priorities in Azerbaijan's economic reform programme is made more difficult by the lack of comprehensive government policy statements. In the absence of internal documents, the main source of policy statements setting out the programme for reform becomes the international agreements on economic reform measures concluded by GoA, particularly those reached with the IMF and World Bank. The most important of these is the three-year Enhanced Structural Adjustment Framework (ESAF) concluded initially in 1996 and updated in 1999. This can be considered to be the most authoritative statement of the GoA's reform policies. The economic policy reforms are described in a policy annex, known as the Policy Framework Paper (PFP). The PFP was therefore used in the Evaluation as a proxy for the statement of government policies since: (i) it is the most comprehensive policy document signed by the GoA ; (ii) its provisions are binding on the GoA and therefore represent a clear policy commitment; and (iii) it is widely recognised as providing the framework for mobilising international support for the reform process.

3.20 The overall objectives of ESAF include: (i) speeding up transition to a market economy; and (ii) developing Azerbaijan's oil resources without adverse impact on the rest of the economy. This requires a combination of macroeconomic policies to ensure continued macroeconomic stability and structural policies to put in place the institutional reforms necessary to facilitate growth of a dynamic private sector. The main elements of the reform programme are summarised in Box 3.4.

Box 3.4: Summary of Azerbaijan's Economic Reform Programme, 1996-99		
Sector	Azerbaijan Policy Objective	Azerbaijan Reform Activities
Fiscal policy		
Revenue policy	<ul style="list-style-type: none"> ▪ Improve revenue raising capacity and efficiency of system ▪ Improve tax administration 	<ul style="list-style-type: none"> ▪ Rationalise taxation rules for VAT, income and depreciation taxes. ▪ Reduce employers' payroll tax. ▪ Update Tax Code. ▪ Develop common taxpayer identification.
Expenditure policy	<ul style="list-style-type: none"> ▪ Reorient expenditure priorities ▪ Improve infrastructure 	<ul style="list-style-type: none"> ▪ Eliminate/transfer non-essential tasks to private sector. ▪ Implement government pay policy. ▪ Reform social protection and social assistance systems. ▪ Develop 3-year public investment programme consistent with budget targets.
Fiscal management/ budget planning	<ul style="list-style-type: none"> ▪ Improve Min Fin's control over public finances and expenditures 	<ul style="list-style-type: none"> ▪ Bring all spending agencies' accounts into Treasury Single Account. ▪ Introduce competitive bidding for government procurement.
Monetary policy	<ul style="list-style-type: none"> ▪ Improve monetary management ▪ Improve banking supervision ▪ Improve soundness of existing banking system 	<ul style="list-style-type: none"> ▪ Liberalise rules for foreign bank participation. ▪ Introduce new chart of accounts and international accounting standards. ▪ Implement restructuring of 4 state-owned banks.
Enterprise reform	<ul style="list-style-type: none"> ▪ Medium/large-scale privatisation 	<ul style="list-style-type: none"> ▪ Privatised medium/large enterprises. ▪ Formulate and begin implementing programme of privatisation by liquidation.
Agriculture	<ul style="list-style-type: none"> ▪ Develop private agriculture 	<ul style="list-style-type: none"> ▪ Complete distribution of land titles to private farmers. ▪ Reorganise irrigation management.
Energy	<ul style="list-style-type: none"> ▪ Rationalise use of energy 	<ul style="list-style-type: none"> ▪ Develop strategy for rationalisation of oil refineries. ▪ Establish proper regulatory environment for natural monopolies. ▪ Introduce Petroleum Law. ▪ Reform communal services. ▪ Spin off and internally restructure non-core activities of energy enterprises.
Education	<ul style="list-style-type: none"> ▪ Develop sector reform plan ▪ Improve use of budgetary resources 	<ul style="list-style-type: none"> ▪ Develop comprehensive reform plan. ▪ Raise student/teacher ratio. ▪ Allocate budget funds by number of students.
Health	<ul style="list-style-type: none"> ▪ Develop sector reform plan ▪ Reorganise sector to improve cost-effectiveness of service 	<ul style="list-style-type: none"> ▪ Develop comprehensive reform plan. ▪ Develop regulatory framework for entry of private sector in health care. ▪ Reorganise health care system to provide universal access to basic package.
Legal framework	<ul style="list-style-type: none"> ▪ Establish framework appropriate for market economy 	<ul style="list-style-type: none"> ▪ Introduce new Land Code, Securities Law, and Bankruptcy Law. ▪ Submit Secured Transaction Law to Parliament.
Trade/exchange reform	<ul style="list-style-type: none"> ▪ Further liberalise trade system 	<ul style="list-style-type: none"> ▪ Introduce new Foreign Trade Charter to meet WTO Accession requirements. ▪ Unify import tariff rates and reduce general tariff rate.
Gov't restructuring	<ul style="list-style-type: none"> ▪ Align structure of government with needs of market economy 	<ul style="list-style-type: none"> ▪ Reduce number of ministries and agencies. ▪ Eliminate state's commercial and industrial activities, whilst strengthening regulatory and policy-making functions.
Reconstruction of war-damaged areas	<ul style="list-style-type: none"> ▪ Start rehabilitation of war-damaged areas 	<ul style="list-style-type: none"> ▪ Undertake social assessment of internally-displaced persons.
Environment	<ul style="list-style-type: none"> ▪ Halt and reverse degradation of environment 	<ul style="list-style-type: none"> ▪ Formulate and implement National Environmental Action Plan.
Statistics	<ul style="list-style-type: none"> ▪ Improve statistical base for economic policy 	<ul style="list-style-type: none"> ▪ Develop new statistical programme appropriate for policy design, implementation and monitoring.
<i>Source: 1996-99 Policy Framework Paper, ESAF agreement.</i>		

Assessment of Relevance

Approach

3.21 The assessment of the relevance of the Tacis strategy to Azerbaijan's reform programme centred on two main questions:

- Was EC assistance addressing the key reform issues which are explicitly part of the GoA's reform programme (as defined by the PFP), rather than those which the EC felt should be part of the GoA's programme?⁹ The EC programme was assessed according to whether or not the objectives for each project related to objectives contained in the PFP. The Terms of Reference (TORs) for the projects in the three most recent APs¹⁰ were examined to see if they were broadly in line with GoA objectives and strategies stated in the PFP. A simple yes/no measure was used to assess each objective. Projects undertaken as part of the Small Projects Programme (SPPs) were not included in this analysis since these tend more narrowly focused and are sometimes part of broader CIS initiatives¹¹. Similarly, projects in the ISP were not analysed since their objectives did not relate explicitly to Azerbaijan.
- Were Tacis activities appropriately sequenced to accelerate the transition to a market economy? In other words, even when the Tacis programme is operating within established priority areas, do the activities carried out by Tacis support primary reforms (e.g. policy development, sector restructuring, institutional reform) or are they mainly focused on secondary activities (e.g. training), which depend for their success on primary reforms already being in place? The analysis was based on the premise that economic development in Azerbaijan depends on appropriate institutional change, supported by a suitable, effective and enforced legislative and regulatory framework. Institutional change was seen as redefining the role of government ministries and agencies, reforming the way in which they operate, and changing the way in which public sector resources are deployed. The analysis also reflected the need for appropriate sequencing of reforms. Thus, supporting the training of lower level staff was considered likely to have little impact unless prior reform to institutional roles and structures have taken place. In order to assess this element, the methodology of each project was examined to see which type of institutional reform assistance was provided. The scoring system was based on four discrete categories with specific criteria attached to each category. These criteria are applicable to institutional reform in all sectors and are summarised in Box 3.5 below.

Results of Analysis

3.22 The results of the analysis are summarised in Box 3.6. As noted above the analysis is *ex ante*, it focuses on the design of the programme and takes no account of subsequent implementation performance. The first column in the table shows the sector breakdown given in the PFP. The second and third columns show how many projects in each sector had objectives which matched GoA target objectives, as defined in the PFP. The next four columns show which stage of institutional reform (if any) the project was assisting: the fundamental stage (Stage A); the capacity building stage (Stage B); the implementation stage (Stage C); or not assisting with institutional reforms (Stage 0)¹².

⁹ The PCA explicitly states that the EC's programme should follow the GoA's "established priorities"

¹⁰ The 1995 AP, the 1996-97 AP and the 1998-99 AP.

¹¹ Some of these initiatives have been the subject of separate evaluations (e.g. the City Twinning Programme, the Policy Advice Programme, the Democracy Programme and the Tempus Programme).

¹² The stages of reform are described in Box 3.5.

Box 3.5: Institutional Reform Indicators

Governmental institutional reform is essential in the transformation of economies from being based on Soviet-style planning to operating under free market rules. An appropriate legal and regulatory framework, smaller government ministries/agencies focused on supporting and facilitating a private market economy, and appropriately trained staff are essential ingredients in building a strong institutional structure for making the transition to a market economy.

The sequencing of these institutional reforms is very important. It is difficult, for example, to undertake appropriate capacity building for an institutional structure that has not yet been established. This has implications for project assistance: if the right inputs are delivered at the wrong time, then they will have no impact.

The following categories have been used to determine the relevance of the methodology of each project:

- **Stage A:** is the foundation of institutional reform and refers to *defining the appropriate institutional framework* consistent with a market economy. This stage involves:
 - Defining the policy framework;
 - Defining the appropriate role of government in the sector;
 - Drafting new legislation appropriate for a market economy and conforming to international (European) legislative standards;
 - Defining and setting up appropriate regulatory framework and regulatory institutions;
 - Defining the appropriate (public) institutional structure, i.e. the appropriate ministries/agencies required to supervise, facilitate and undertake policymaking in a market economy;
 - Setting up the appropriate institutional structure defined in the previous step.
- **Stage B:** builds on the foundation established in Stage A, focusing on *capacity building in the newly established institutions*. Activities in this stage can only take place once those in Stage A have been completed. This stage involves:
 - Developing terms of reference and work plans for staff in the redefined institutional structure;
 - Identifying what staff and what skills are required, including managerial staff;
 - Training staff to help them develop the required skills.
- **Stage C:** is the final stage in institutional reform and refers to *implementation of the reformed institutional framework*. It can only take place when Stages A and B have been carried out. This stage involves:
 - Implementing the reformed agenda identified in Stage A and using staff trained during Stage B.
- **Stage 0:** projects in this stage are not related to helping to build the institutional framework.

In this section of the report (Chapter 3, Section D), each project has been categorised into stages of institutional reform according to the above criteria. These are used to determine whether Tacis activities were assisting with fundamental (first stage) institutional reforms, with those that should take place later or were not assisting institutional reforms at all.

Source: Evaluation Team.

3.23 A total of 22 projects were analysed. The results can be considered in terms of:

- The extent to which the reform areas being supported were consistent with the GoA's broad policy objectives.
 - ◊ The PCA explicitly states that the EC's programme should follow the GoA's "established priorities". In 60% of the projects analysed, objectives were closely related to reforms in the PFP. This was particularly true of the enterprise reform sector, where the EC programme included assistance to the privatisation programme and the development of SMEs. It was less true of restructuring of the public sector, where neither of the projects supported by Tacis reflected priorities in Azerbaijan's reform programme. Projects in the energy sector had a mixed result, with half of the eight projects in this sector supporting reform measures, largely those aimed at restructuring the policy framework and supporting legislative reform.
 - ◊ Nonetheless, a significant proportion (nearly 40%) of projects were supporting areas that were not central to the reform programme. These included transport and telecommunications sector master plans, and feasibility studies in the energy sector.
 - ◊ Important areas of institutional development were not being supported by technical assistance from Tacis. These included reforms in the health and education sectors and restructuring in the agricultural sector.
- Whether Tacis-supported activities reflected an appropriate sequencing of the institutional reform process.
 - ◊ 36% of projects were supporting Stage A institutional reforms (definition of the appropriate institutional framework). Most of these projects involved the development either of legislative frameworks (energy sector and proposed establishment of Policy and Legal Advice Centre) or of policies more appropriate to a market economy

(assistance to the transport sector, electricity sub-sector, the privatisation programme and pension development). Although the sample size is relatively small, the 1998/99 AP included a higher proportion of Stage A projects than previous APs.

- ◇ A further 36% of projects were assisting Stage B reforms (capacity building in newly established institutions). While some of these projects were complementary to Stage A reforms, in the area of enterprise reform Tacis had continued to support SME advisory services in the absence of an enabling policy and regulatory framework.
- ◇ As would be expected at a relatively early stage in the reform process, no projects were classified as Stage C (implementation of the reformed institutional framework).
- ◇ The remaining 27% of projects were classed a Stage O and were not linked to institutional reform. The majority of these projects were for feasibility studies in the energy sector. The ability to implement the proposals from these studies had been limited due the slow progress with the implementation of policy and institutional reforms in the sector.

Sector ²	Project Objectives		Project Type/Methodology				Total Projects
	Related to Gov't Reform Prog	Not Related to Gov't Reform Prog	Stage A	Stage B	Stage C	Stage O	
Fiscal/monetary policy	0	0	0	0	0	0	0
Enterprise reform	6	1	2	5	0	0	7
Agriculture	0	1	0	1	0	0	1
Energy	4	4	2	1	0	5	8
Education/HRD	1	1	2	0	0	0	2
Health	0	0	0	0	0	0	0
Legal framework	1	0	1	0	0	0	1
Trade/exchange reform	0	0	0	0	0	0	0
Gov't restructuring ³	0	2	1	1	0	0	2
Reconstruction of war-damaged areas	1	0	0	0	0	1	1
Environment	0	0	0	0	0	0	0
Statistics	0	0	0	0	0	0	0
Total	13	9	8	8	0	6	22

¹ Full results are contained in Annex D.
² Sectors based on classification contained in the Policy Framework Paper.
³ Includes projects involving restructuring in the transport and telecommunications sectors
⁴ Includes projects for the Ministry of Labour and Social Protection.
Source: Evaluation Team

Support to civil society

3.24 Outside of the public sector, Tacis has provided only limited assistance¹³ to the development of civil society, primarily under the SPPs. This was in large part due to the undeveloped nature of civil society institutions and the lack of capacity within the EC to pursue civil society initiatives directly and independently of the GoA. Discussions with representatives of civil society emphasised that growth in this sector was constrained by a hostile legislative and policy framework. Appropriate EC assistance with the legislative framework affecting NGOs would facilitate opportunities for civil society to develop in future¹⁴.

¹³ Less than €0.5 million in the 1996/97-1998/99 APs.

¹⁴ Activities of other aid agencies working with civil society (UNDP and USAID) include management training, information libraries and networking opportunities.

Conclusion

3.25 In conclusion, the overall finding of the Evaluation was that the Tacis programme could have been more strategic in its focus. In most cases, EC activities were appropriately targeted at areas that the GoA considered its established priorities. However, specific activities undertaken within these priority areas were often insufficiently directed towards central institutional and policy reforms. Instead, they were more focused on providing complementary assistance such as supporting private sector advisory services or training personnel in market principles. Training, which can have an important impact in facilitating reform, was found to be insufficiently directed towards key decision-makers.

3.26 It could be argued that any tendency for EC projects to avoid supporting core sector and institutional reforms was itself a response to the difficult policy and institutional environment in Azerbaijan. However, this is to ignore the reality that the success of the Tacis support would still depend on the necessary reform measures being taken.

D. Issues for Future Programming Rounds

3.27 One of the difficulties facing the EC in its desire to support core elements in the reform process has been the lack of an effective policy dialogue with the GoA. This has been exacerbated by the absence of a comprehensive GoA-led reform agenda and weak GoA counterpart institutions. Without an effective policy dialogue with GoA, it is difficult for the EC to have leverage over the reform process. When reforms go more slowly than desired or get stalled, such as occurred prior to 1998 with the GoA's privatisation programme, the EC has had limited capacity to try to move the process forward. Consequently, projects supporting such reforms can become stalled or fail to achieve significant impact.

3.28 While these constraints make the policy environment a difficult one for any aid agency providing technical assistance, the EC's capacity to strengthen its policy dialogue with the GoA has been hampered by its own lack of management capacity to oversee its strategic agenda. It is difficult to carry out an effective policy dialogue without a permanent representation and when programme managers typically visit only 2-3 times per year¹⁵. This may be contrasted with the much closer supervision exercised by the World Bank which maintains a permanent presence in Baku and undertakes much more intensive supervision of its programmes.

¹⁵ The wider issue of the impact of management procedures on the relevance and responsiveness of the Tacis programme is addressed in more detail in Chapter 5.

4. Impact of the Tacis Programme

The impact of the Tacis programme against intended outcomes has been reduced by weaknesses in the underlying sector reform process, project design, flexibility of project implementation and the level of Azeri commitment and ownership of reforms. The Evaluation found that the EC's impact on the overall reform agenda was limited, with the greatest effect occurring in the drafting of legislation and the provision of economic policy support. Broader based sector strategies focusing more on the realisation of policies and the establishment of functions rather than institution-based initiatives would give the Tacis programme greater flexibility to plan its interventions in line with the reform process, increase its influence on GoA strategy and facilitate co-ordination with the programme of structural reforms promoted by other aid agencies.

A. Introduction

4.1 This chapter assesses the impact of the Tacis supported activities in Azerbaijan. It looks at both the immediate outcomes of the sector initiatives supported by Tacis and their impact on the reform process in Azerbaijan. The analysis begins by providing a summary analysis of the impact of Tacis activities across each of the main sectors in which support has been provided (Section B). This draws on the assessments made in the monitoring reports, but also includes a wider assessment of contribution to the reform process. The chapter goes on to consider the key factors which have influenced the success of Tacis projects (Section C). These include the strength of the underlying sector reform process, the appropriateness project design, the flexibility of project implementation, the level of beneficiary commitment and of downstream investment financing (Section C). The final section highlights issues for programming in future EC assistance (Section D).

B. Impact Analysis

4.2 The Evaluation undertook an *ex post* analysis of the impact of Tacis activities in Azerbaijan. The results of this analysis are contained in Box 4.1. Impact was measured in terms of the extent to which sector programme objectives were achieved and the sustainability of the initiatives supported. It drew on information from project terms of reference, subsequent monitoring reports, particularly the end-of-project assessments and the findings of the evaluation of the regional Traceca programme. From this was derived a ranking for each project reflecting achievement of objectives and sustainability. This ranking reflected the “scores” achieved in the monitoring reports averaged across the projects in a sector. A further score reflected the Evaluation’s assessment of the impact of the Tacis assistance on the wider reform process in the sector. The key factors influencing project outcomes were also identified.

4.3 The analysis covered projects in the 1995 and 1996-97 Action Programmes (APs) with some reference to earlier support provided under the 1993-94 AP where this had played a significant role within a sector programme. It also included the support provided under the Inter-State Programme (ISP) in the transport and environment sectors¹.

¹ The regional assistance provided in the energy sector under the Inogate programme was not included since it is currently the subject of a separate evaluation.

Box 4.1: Analysis of Impact of Tacis Programme						
Sector	Intended Objectives	Outcomes	Rating #			Remarks
			A	B	C	
Agriculture	<ul style="list-style-type: none"> To facilitate the development of private sector agriculture through improving access to credit, developing appropriate policies, improving technical extension/advisory services. 	<ul style="list-style-type: none"> Pilot rural credit unions established. Credit on-lent through MoA with poor recovery record. Agri-business advisory units created. Land policy legislation reviewed and reforms proposed. 	2	2	3	<ul style="list-style-type: none"> Weak underlying policy framework. Limited impact on reform process. Recent Tacis assistance has not been focused on supporting sector-wide policy, regulatory and institutional reform processes. Unrealistic design of initial credit programmes, now being addressed under Rural Banking Project. Short duration of Tacis projects raises doubts over realism of targets and sustainability of rural credit and agri-business support initiatives.
Energy	<ul style="list-style-type: none"> To develop appropriate policy, regulatory and institutional frameworks for the energy sector through establishment of Ministry of Fuel and Energy. To assist in the development of bankable investment proposals for improving energy distribution to the domestic market. To promote efficiency in the use of energy resources. 	<ul style="list-style-type: none"> Energy legislation prepared. Feasibility studies produced, but did not lead to investment Cadre of personnel trained in energy management and energy audits. Two autonomous energy centres established, but with limited demand for services and scope for cost recovery. Ministry of Fuel and Energy not established. 	3	3	3	<ul style="list-style-type: none"> Legislation work valued, sustainable, appropriately policy-orientated. Weak underlying policy framework and commitment to reform. Feasibility studies too late and ignored in process of securing investment financing for Baku/Sumgait energy distribution. Inappropriate project design, in the case of Energy Saving Centre and Support to Ministry for Fuel and Energy. Limited participation and ownership by Azeri partner organisations (output not sufficiently valued), except legislation work.
Enterprise Restructuring and Development	<u>SMEs</u> <ul style="list-style-type: none"> To assist with the development of a favourable environment for SME development. To assist entrepreneurs with the development of business and marketing skills and in making contact with potential foreign partners. 	<ul style="list-style-type: none"> Entrepreneurs trained in management and marketing and exposed to international business practice. SME training and advisory body (SMEDA) established but without secure source of financing. 	2	2	3	<ul style="list-style-type: none"> Business environment unfavourable due to inadequate legislative regulatory framework, corruption, and lack of access to financing. Assistance concentrated on training and advisory services but did little to address unfavourable business environment. Project design did not adequately address sustainability of SMEDA. Entrepreneurs unwilling to pay for SMEDA services.
	<u>Privatisation and Enterprise Reform</u> <ul style="list-style-type: none"> To create a more responsive private sector led economy through assisting initiation of privatisation of large-scale enterprises by competitive and transparent means. To meet future needs for auditors and insolvency practitioners. 	<ul style="list-style-type: none"> Privatisation plans produced. Cadre of personnel trained in international audit standards and procedures. 	1	2	2	<ul style="list-style-type: none"> Sustainability was threatened by the lack of political commitment to the privatisation programme. Beneficiary participation was strong in the project to build capacity for auditors, but impact limited by: (i) no system for certifying auditors; and (ii) lack of demand for audit services due to delay in passage of Bankruptcy Law. Good use of policy to provide timely and relevant advice.
Environment	<ul style="list-style-type: none"> To develop an appropriate policy/legislative and regulatory framework which provides for appropriate incentives for sound environmental practices. To develop and implement a National Environmental Action Plan (NEAP) and to build managerial capacity to implement the plan. To promote the sustainable development and management of the Caspian environment over the medium to long term. 	<ul style="list-style-type: none"> NEAP prepared under initiative involving all governments in the region. Improved technical capacity to study environmental issues. Initiatives taken to promote awareness of environmental issues across government, civil society and donors. Multi-country programme to improve Caspian environment initiated. 	2	2	2	<ul style="list-style-type: none"> Limited participation by Azeri beneficiary organisation limited impact of assistance to raise environmental awareness. Co-ordination with other aid agencies worked well; co-ordination with civil society groups was less effective. Co-ordination with the design of NEAPs among countries in the region was effective. Underlying policy/legislative framework was weaker than in other countries, lessening ability to achieve changes to policy framework.
<p># Explanation of Impact Ratings: Category: A = achievement of objectives (based on monitoring reports); B = sustainability (based on monitoring reports); C = impact on sector reform progress (Evaluation assessment) Scores: 1 = significant (corresponds to A and B in monitoring reports); 2 = positive (corresponds to C in monitoring reports) 3 = limited (corresponds to D and E in monitoring reports).</p>						

Box 4.1 (cont.) Analysis of Impact of Tacis Programme						
Sector	Intended Objectives	Outcomes	Rating #			Remarks
			A	B	C	
Human Resources Development	<ul style="list-style-type: none"> To develop appropriate policies and implementation capacity to deliver employment services. To establish an affordable social protection system. To sustain and strengthen the higher education sector by promoting partnership with EU institutions. 	<ul style="list-style-type: none"> Cadre of personnel trained in employment issues in a market economy. Employment initiatives (job seekers' clubs self-employment initiatives, etc.) begun, but unlikely to be sustained. Universities assisted through twinning support. 	2	3	3	<ul style="list-style-type: none"> Weak underlying policy/legislative framework contributed to limited beneficiary participation and ownership. Short period of assistance for employment services led to limited impact on reform process and adversely affected sustainability. Good use of PAP support to provide initial inputs on pensions reform prior to planned TA project. Support to higher education although effective has not been linked to development of reform plans for the sub-sector.
Infrastructure development	<u>Transport</u> <ul style="list-style-type: none"> To enhance political and economic independence of the countries in the region, and their capacity to access the European and world markets. To enhance regional co-operation between the member countries. To establish a link to the Trans European Networks (TENS) and Pan European Transport Area (PETRA). To attract support by IFIs and private investors 	<ul style="list-style-type: none"> Improved transport services along the TRACECA route. Institutional reform of transport sector initiated. Changes to legal framework for the transport sector proposed. Prioritised investment plans have facilitated securing of investment finance. 	1	1	1	<ul style="list-style-type: none"> Emphasis on sector-wide programme management. Effective co-ordination between member countries in policy/programme dialogue has led to strong ownership and support for the programme throughout the region. Traceca seen as effective co-ordinating body facilitating co-operation with and among the IFIs and other aid agencies. Traceca studies fully integrated into process of securing investment financing.
	<u>Communications</u> <ul style="list-style-type: none"> To assist Azerbaijan with initial preparatory work to modernise its telecommunications system. 	<ul style="list-style-type: none"> Training Institute established. Feasibility study produced for the move from analogue to digital technology but did not lead to investment. 	2	2	3	<ul style="list-style-type: none"> Confused policy/legislative framework, with Ministry of Economy and Ministry of Communications both responsible for policy in sector. Limited interest/value felt by Azeri beneficiary. Sector reform and restructuring should have preceded preparation of feasibility study and investment planning and establishment of training centre. Impact weakened considerably by short project timetable. At end of project, activities of the Training Institute had "almost started".
	<u>Rehabilitation of Fizuli District</u> <ul style="list-style-type: none"> To assist in the physical rehabilitation of infrastructure in Fizuli district. To facilitate the return of refugees to the region. 	<ul style="list-style-type: none"> Physical rehabilitation of transport, water supply, and electricity infrastructure. 	1	2	1	<ul style="list-style-type: none"> Effective co-ordination of Tacis activities with other aid agencies, including ECHO, the World Bank and UNDP. Sustainability depends on the provision of adequate finance for maintaining rehabilitated infrastructure.
Economic Policy Support	<ul style="list-style-type: none"> To support GoA in the development of appropriate policies. To develop local capacity to analyse specific policy issues. 	<ul style="list-style-type: none"> Production of monthly Azeri Economic Trends publication. Strengthened policy framework in Ministry of Trade. Letter of WTO Accession produced. 	1	2	2	<ul style="list-style-type: none"> Assistance highly focused and well timed. Strong beneficiary interest and involvement. Uncertainty over future support to sustain Azeri Economic Trends.
<p># Explanation of Impact Ratings: Category: A = achievement of objectives (based on monitoring reports); B = sustainability (based on monitoring reports); C = impact on sector reform progress (Evaluation assessment) Scores: 1 = significant (corresponds to A and B in monitoring reports); 2 = positive (corresponds to C in monitoring reports) 3 = limited (corresponds to D and E in monitoring reports).</p>						

Overview of Main Findings

4.4 The Evaluation found that:

- Tacis had been most successful in the sectors of transport and energy legislation. The support provided in these sectors had been influential and had benefited from being well co-ordinated with the assistance provided by other aid agencies.
- Projects in the agriculture sector had achieved mixed success. Tacis initiatives in the sector were also adversely affected by the limited support available to the MoA in pursuing broader policy and market reforms.
- The Tacis support for SME development was an example of assistance which had been successful in terms of the delivery of the intended outputs, but where the overall impact of the project and its sustainability was questionable.
- Tacis projects had been least successful in the energy (except for energy legislation) and human resources development sectors, where the assistance had suffered from the lack of beneficiary commitment to the reforms being supported.

4.5 The Evaluation concluded that the EC's impact on the overall reform agenda was limited, with the greatest effect occurring in the drafting of legislation and the provision of economic policy support. This conclusion is consistent with the analysis in Chapter 3 in which the building of an appropriate legislative, policy and institutional framework was found to be a necessary foundation for the effectiveness of further assistance. The role of the Policy Advice Programme in preparing for a more sustained intervention can be critical in this regard. Box 4.2 considers Tacis impact on the wider EC objectives of poverty reduction, good governance, democratisation, gender equality and environmental protection.

Box 4.2: EC Global Objectives for Development Co-operation

EC global objectives for development co-operation emphasise poverty reduction, good governance and democratisation, gender equality, and environmental protection. These objectives are not fully reflected in Tacis assistance, the purpose of which is to provide "technical assistance in support of the economic reform in progress in the partner States for measures aimed at bringing about the transition to a market economy and reinforcing democracy". In the design of Tacis projects "due regard should be taken of the promotion of equal opportunities for women in the recipient countries, and environmental considerations". (Council Regulation No 1279/96).

- The majority of Tacis projects can be regarded as being related to promoting good governance through provision of support to legislative, policy and institutional reform and development. Support for democratic reform has not been strongly reflected in the Azerbaijan programme. This may in part reflect Azerbaijan's ambivalent position on democratic reform and on the role of civil society groups and NGOs.
- Environmental protection has also been a focal area for Tacis assistance under the regional Inter-State programme. Support has been provided for the development of an environmental action plan, raising environmental awareness and addressing Caspian Sea environmental issues.
- The focus on poverty reduction measures has been considerably less. Some support is being provided to the reform of elements of the social safety net, specifically employment services and pension reform. The project to support rehabilitation efforts in Fizuli District was also directly related to poverty reduction, although this type of project was an exception to the normal assistance provided by Tacis. Other EC development assistance to Azerbaijan - food security support and the special assistance programme – have had a much stronger poverty focus.
- The Evaluation found little evidence of issues of gender equality having been specifically reflected in the design of Tacis projects.

C. Factors Affecting Tacis Project Outcomes

4.6 The analysis of project impact highlighted a number of common factors that had significantly affected the success of Tacis projects. These were:

- the strength of underlying policy, legislative and institutional reform frameworks in the sector;

- appropriateness of project design, including cost effectiveness and sustainability;
- the flexibility of the project in responding to changing conditions;
- the extent of the involvement and commitment of the project beneficiary institution;
- the effectiveness of co-ordination with other EC assistance and other aid agencies working in the sector; and
- in the infrastructure sectors, the link between Tacis TA and investment financing.

Strength of the Sector Reform Framework

4.7 The Evaluation found that the effectiveness of Tacis supported initiatives was often limited by weaknesses in the underlying policy analysis and framework for supporting the reform agenda. As indicated in the previous chapter, the legislative and policy framework is an important foundation on which other reforms should be built. In order to be effective, reforms need to be sequenced appropriately. It is difficult to build capacity for an institution that has no mandate to carry out a reformed agenda. Thus, in the absence of such a framework, Tacis assistance should be directed towards building one.

4.8 In some sectors, Tacis worked very effectively to assist in the development of a strong policy framework. This was particularly true in the transport sector as part of the Traceca initiative, where changes in legislation were discussed in relation to wider sector policy issues. Strategic planning of medium and long-term infrastructure development is an important feature of the regional policy dialogue of Traceca.

4.9 However, in a number of important sectors, the weakness of the policy framework significantly hampered the achievement of appropriate outcomes (Box 4.3).

Box 4.3: Limited Impact of Tacis Assistance in the Absence of an Appropriate Sector Reform Framework

The experiences with Tacis support for the energy sector and SME development highlighted the limited impact of Tacis assistance in a situation where there had been slow progress with establishing an appropriate legislative, policy and institutional framework.

Energy

The energy sector in Azerbaijan has been characterised by the absence of an appropriate institutional framework for oversight and regulation of the sector, and by the dual responsibility of the state energy companies for both regulation and supply (SOCAR for oil and gas production; Azerigas for gas transmission and distribution; Azerenerji for electricity generation, transmission and distribution). While these companies have been turned into joint-stock companies, they remain State monopolies, a role which they have sought to retain. Tacis assistance to the sector has sought to promote the creation of regulatory and supervisory authorities. A 1995 AP project, Legislation, Taxation and Financial Assistance to the Energy Sector, was intended to support the reorganisation of the policy, legal and regulatory framework in the sector. Although successful in developing some draft legislation that was later approved by the Parliament, the project had limited impact because Azerbaijan was not yet prepared to regulate the energy sector based on current European practice. The decision to continue Tacis assistance under the subsequent APs was based on the GoA establishing a Ministry of Fuel and Energy. In practice, by the end of 1999 this had not occurred. Despite this the project under the 1996-97 AP to support the establishment of the new ministry went ahead, although with little evidence of it having had significant impact. The project under the 1998-99 AP had been frozen pending prior GoA action to set up the new Ministry.

SME Development

Tacis support for SME development appears to have had no impact on the legislative and policy environment in the sector. The decision to concentrate assistance on an SME Development Agency assumed the existence of a policy environment which in practice was not in place. The emphasis on assisting individual entrepreneurs had limited the scope of the Tacis assistance to address deficiencies in the wider business and commercial environment which represented the fundamental constraint limiting the development of SMEs. As a result Tacis influence on these wider issues of promotion of competition, the fight against corruption, bankruptcy legislation, reform of the banking system, and the introduction and implementation of a commercial code had been very limited. A sector-wide approach combining policy, institutional and service reforms could have been expected to have had greater impact.

Appropriateness of Project Design

4.10 There were a number of examples of projects in which the design was not sufficient for the realisation of the planned objectives. In the case of the project to support establishment of an energy training and management centre, the project design failed to take into account the limited incentives to adopt efficiency measures under present energy pricing policies. Similarly the design of the SME support programme, which focused on the provision of training and advisory services through SMEDA, ignored the more fundamental constraint of the absence of an enabling policy and regulatory environment in the sector.

Factors Affecting Project Design

4.11 The Evaluation found that sound project design was made difficult by the absence of capacities to manage Tacis assistance at the sector level. This meant that projects were sometimes prepared in relative isolation from the wider sector programme of which they were part. The appropriateness of project design was also adversely affected by the long project lead-in times¹, while the relatively short implementation periods for Tacis projects contributed to unrealistic design assumptions particularly concerning the sustainability of the activities initiated. Where these factors did not apply, such as with assistance included under the regional Traceca initiative and with assistance provided under the PAP, projects tended to be more successful.

Sustainability

4.12 Project sustainability has been an explicit concern in the design of Tacis projects. This has been reflected in the focus on establishment of new institutions or “centres” which are intended to become self-financing². The Evaluation found that in some cases, such as with the establishment of a banking training centre, this emphasis had been appropriate. However, elsewhere it had been inappropriately applied to services for which the opportunities for direct cost recovery were limited and which even within the EU were government funded³. A broader and more strategic view of sustainability would have focused on ensuring that the advice provided was valued by the beneficiary institution in terms of its contribution to the development and implementation of reform actions. Where the opportunities for securing local funding are limited, it would be appropriate for Tacis to consider continued funding for an extended period rather than making unrealistic assumptions and timetables regarding cost recovery.

Cost Effectiveness

4.13 Insufficient attention had been given to ensuring cost-effectiveness in project design and implementation. Specifically:

- Lessons learned during project implementation have not been fully reflected in subsequent rounds of programming (e.g. RARP and the following Establishment of a Rural Credit Institution).
- SPPs with potentially high impact and limited costs have not been fully exploited in support of wider sector programme objectives. Instead, a more traditional technical assistance project has been preferred, even when considerable uncertainties over the direction of pace of reform would have suggested that relatively large-scale technical assistance inputs might initially not be appropriate.
- Strategic decisions to withdraw from areas of co-operation that are not yielding satisfactory results have not been made, and sometimes the lack of progress has itself been used to justify the need for further assistance (e.g. SME Development Programme).

¹ These issues are considered further in the review of Tacis programming and management contained in Chapter 5.

² Examples include SMEDA, the Energy Saving and Management and Management Centre, the Regional Pilot Agri-Business Support Units, Support to the Banking Sector, and the proposed Azeri Policy and Legal Advice Centre.

³ SMEDA services, for example, are almost identical to those of the Business Innovation Centres (BICs) in EU countries which are funded from the Budget.

Flexibility in Responding to Changing Conditions

4.14 Particularly in a transition economy in which conditions are changing rapidly and where the commitment to reform is sometimes unclear, flexibility in approach is likely to be a key factor influencing the success of TA outcomes. Flexibility can be considered in terms of:

- Timely interventions whenever the opportunity arises to improve legal frameworks, to influence decision-making and to support institutions in the implementation of critical measures. Examples of Tacis projects in which this occurred were: (i) Drafting of the Law on the Civil Code, where the legislation was subsequently approved by Parliament; and (ii) Preparation of a Framework for Strategic Privatisation; and (iii) Preparation of a Foreign Trade Memorandum for WTO Accession.
- Activities that are perceived as being relevant and responsive to the reform agenda. Examples of Tacis initiatives in which this successfully occurred are: (i) Azeri Economic Trends which helped raise the professional interest and commitment of officials in understanding developments in the economy; (ii) Raising Environmental Awareness which successfully addressed a wide audience on sensitive issues; and (iii) the Traceca Umbrella Agreement and EBRD Bangkok Facility which effectively linked policy advice and technical assistance to the realisation of investment opportunities.
- Building up commitment in a specific area providing the basis for support for wider reform initiatives. This occurred with (i) the Audit of Privatisation for the State Property Committee, which was followed by a further project Regulation of Post-Privatisation Activities of Joint-Stock Companies and Development of a Securities Market; and (ii) Preparation of a Foreign Trade Memorandum for WTO Accession which is to be followed by a project for the establishment of a Policy and Legal Advice Centre.

4.15 Many of the successful examples of responsive technical assistance were projects funded from the Policy Advice Programme (PAP) and other Small Projects Programmes (SPPs). The nature of these programmes has made them more responsive and relevant to changes and developments within the reform process compared with larger TA projects with their longer lead-in times (Box 4.4). Timeliness and the very focused assistance provided under the PAP and SPPs had also contributed to the achievement of lasting impact at sector policy level. However, the Evaluation found that the use of the PAP was generally not integrated with the other assistance provided by TA projects. For example, there were few examples of using the PAP to provide bridging support during the long lead-in periods for larger Tacis TA projects, or in providing critical inputs in areas closely related to the work of another Tacis project. The lack of such support reflected overall weaknesses in the programming and management of Tacis assistance at the sector level⁴.

Local participation and ownership

4.16 Strong local ownership of Tacis-supported initiatives has in many instances proved difficult to achieve. This has been reflected in the limited impact of reforms and Tacis activities on beneficiary organisations and a tendency for Tacis initiatives to be seen as separate from the core institutional activities in a sector.

4.17 The Evaluation identified a number of factors which had contributed to this lack of ownership. These included: (i) the limited input into project identification and design, followed by a long lead-in time before the Tacis TA team arrived; (ii) the prevalence of expatriate technical assistance in Tacis projects and the limited assistance available for investment in the beneficiary institutions; and (iii) the minimal role of the beneficiary institution in the management of Tacis technical assistance projects⁵. Where ownership has been weak it has reduced project impact. In extreme cases it had resulted in beneficiary institutions viewing the benefits of Tacis projects more in terms of the opportunities for

⁴ Sector programme management is discussed in Chapter 5.

⁵ Organisation and management issues are discussed in greater detail in Chapter 5.

purchasing new equipment, receiving training and travelling abroad rather than as useful instruments for upgrading their operations.

4.18 The limited impact resulting from weak commitment to project activities and to reform in general may be illustrated by the distancing of the energy companies from the institutional assistance provided to establish the Energy Saving and Management Centre, despite the fact that they were intended beneficiaries of the project. Awareness building in the environmental sector was also adversely affected by the reluctance of the Committee on Environmental Protection to support the initiatives.

Box 4.4: Procedural Rigidities in Tacis Assistance for Privatisation

The first major intervention in support of the privatisation was formulated under the 1993-94 AP, when consensus within GoA over the form and direction of the privatisation process was still very limited. The project design assumed that there would be spontaneous requests for privatisation from the management of potentially viable large State enterprises. After an interval of around 18 months from identification of the project, the TA team arrived in April 1994 at a time when the partner organisation, the State Property Committee (SPC), was no longer supportive of the initiative. The privatisation process stalled and the project was suspended in November 1995. With hindsight it was clear that the assumptions on which the project design was based were poorly founded. During the long lead-in time before the TA arrived there was little dialogue with the SPC and no provision of short-term advice that might have highlighted the problems that led to the subsequent suspension of the project. As a result the TA provided was largely ineffective and represented an inefficient use of Tacis resources.

Following a change of management in SPC, a second attempt was made to support the privatisation process with a small budget (0.4 million ECU) under the 1996-97 AP. The project was to build upon the work done under the previous project and in collaboration with the World Bank streamline the existing normative documents covering privatisation. However, this project never started because its budget was considered too small to justify the long tendering procedure. Instead a revised project was included under the 1998-99 AP.

To bridge the time gap, two very successful SPP initiatives were implemented during 1998 to support SPC with case-by-case privatisation within the framework of the first privatisation programme. This generated an interest within SPC in proceeding with the larger project under the 1998-99 AP. Although terms of reference for this project were prepared and endorsed by the SPC in mid 1998, it was subsequently decided to redefine the project in the context of the GoA's new privatisation initiative. At the time of the Evaluation, the SPC was not clear when the revised ToRs would be prepared and the project tendered.

Co-ordination with other EC instruments and other aid agency assistance

4.19 Co-ordination between Tacis and other aid agencies was found to be effective in the transport and environmental sectors. Co-ordination in environmental projects (particularly with the UNDP and World Bank) is facilitating the implementation of a single set of reform measures with a similar objective. In transport, it has enabled infrastructure development to be linked to wider sector, national and regional objectives. At the same time, the ability to link Tacis technical assistance with capital financing from the IFIs has enabled more extensive reforms to be undertaken, not only in physical infrastructure development (such as transport projects for Traceca) but also with institutional development (such as the pension reform project). Elsewhere, as noted in Chapter 3, co-ordination of Tacis projects with the wider reform programme had been less successful.

4.20 Tacis has been less successful in co-ordinating with civil society. This point was made strongly by representatives of NGOs attempting to increase public awareness of environmental issues. They had not been aware of Tacis efforts in this field and had not been invited to participate in awareness-raising initiatives which would have benefited from joint efforts.

4.21 Complementarity between EC instruments was found to be effective in the work on rehabilitation in Fizuli district. Tacis technical and capital assistance was supporting ECHO assistance and food aid counterpart funds, as well as assistance from the World Bank and other donors, under a project implementation/co-ordination structure established by UNDP (ARRA).

4.22 Less effective use of complementary instruments was found in the agriculture sector, where technical assistance from Tacis was not designed to assist the Ministry of Agriculture to meet tranche conditions from the EC's Food Security Programme. In addition, better use could have been made of

the PAP to identify areas for further assistance on sector reforms, particularly in the agriculture and energy sectors.

4.23 More effective use of EC instruments as a package would highlight the wide-ranging nature of the EC programme and counter the (incorrect) perception that the EC is primarily a technical assistance programme⁶.

Ability to link TA with investment

4.24 Pre-investment TA has been an important feature of the Tacis programme in Azerbaijan. Extensive oil and gas reserves and Azerbaijan's strategic position on the transit corridor to Central Asia have led to the commitment of significant resources to this form of assistance. The aim has been to act as a catalyst for IFI investment in infrastructure, mainly energy, transport and telecommunications. However, the results have been mixed:

- In some instances it proved impossible to link the timing of the Tacis TA with the negotiation of project financing. For example, the TA for the feasibility study for the rehabilitation of the energy distribution system in Baku and Sumgait was too late to provide a significant input into the financing negotiations with the Japanese Government to fund the rehabilitation of two power stations. Similarly, the pre-investment plan for digitalisation of the telecommunications network is likely to have limited impact since neither the Ministry of Communications nor the Ministry of Economy has identified a source of capital financing to implement the plan. Significant delays between preparation of pre-feasibility or feasibility studies and identification and mobilisation of capital financing lessen the relevance of the studies, as the financial and technological assumptions on which the proposals were based become outdated.
- Feasibility and technical studies under the Traceca sub-programme appear to have been more effective in attracting the interest of IFIs to finance the development of the Southern Transport Corridor. This is mainly due to the direct participation of IFIs in the Traceca initiative and the leading role of the Traceca working groups in defining the strategy of intervention and co-ordinating donors.
- The arrangements for Tacis financing of pre-investment TA under the Bangkok Facility, where the TA funds are managed by the EBRD, have avoided the difficulties in co-ordinating funding and timing of pre-investment studies and the securing of capital financing. The facility had been well used in Azerbaijan with over €3.5 million having been disbursed for activities in Azerbaijan by June 1998⁷, with the facility having been more intensively used than in other countries in the Caucasus region. If pre-investment financing is to continue to be an important element of the Tacis programme, there would be a strong argument for extending Bangkok Facility type arrangements to other IFIs.

D. Issues for Future Programming

4.25 The Evaluation found that overall impact of the Tacis programme had been quite limited. This was largely due to weaknesses in the policy, legislative, regulatory and institutional environments in which the Tacis assistance took place. It was clear that Tacis interventions had assumed a more rapid rate of reform than had been achieved and stronger Azeri institutions than existed. The consequence was that a number of Tacis projects proved premature and their impact was confined to immediate beneficiaries rather being more broadly spread across the sector. In these circumstances, the sustainability of the activities was often questionable. Where Tacis assistance has been successfully linked to capital financing being provided by other donors (such as under the Traceca programme and

⁶ See Chapter 5, Section B.

⁷ "An Evaluation of Phare and Tacis Co-financing Programmes with the EBRD" – April 1999.

the Bangkok Facility), or integrated with other EC budget lines (such as with the support for development in Fizuli District), it has generally proved to be more influential and effective (Box 4.5).

Box 4.5: Illustration of Positive Programme Impact – the Case of Traceca

Traceca is considered an example of an effective programme that had achieved considerable impact. A number of factors that had contributed to this success. These included:

- **a focused objective** – to promote economic integration at regional level, linked to a clear plan to develop transport links between Central Asia, the Caucasus and Europe;
- **policy dialogue intra NIS** – the statement of endorsement for each project was signed by all member countries;
- **policy dialogue EU-NIS** – NIS countries were required sign existing international conventions on transport; to approve the Traceca Umbrella Agreement; and to harmonise transport regulations and standards;
- **regular meetings of the Working Group** – through the organisation of yearly conferences to discuss issues related to both implementation and programming;
- **a single management contractor** – but with decentralised decision making, facilitated by two co-ordination teams in Tbilisi and Tashkent and local offices in all Traceca member states;
- **relatively short project lead-in times** – which averaged 6 to 12 months, half that for projects under the AP;
- **complementarity in the use of different instruments** – policy advice, institution building, technical assistance, investment projects;
- **effective pre-investment TA** - including technical and financial audits, market studies, feasibility studies, environmental impact assessment, legal advice on negotiation, all reducing significantly the pre-investment costs;
- **leadership in the sector** - respected by other donors and therefore able to attract and co-ordinate investment financing;
- **an effective catalyst for private sector participation** - attracting industrial sponsors and financial institutions to invest in viable projects and directly manage transport facilities under concession contracts.

4.26 Projects were also affected by insufficient beneficiary commitment, limited integration between the different Tacis instruments and weak co-ordination with other EC programmes and with the activities of other aid agencies. The relatively short implementation periods of Tacis projects had also led to unrealistic design assumptions about the duration of assistance that was required and about the measures necessary to ensure sustainability of the activities supported

4.27 Broader-based sector strategies focusing more on the realisation of policies and support for critical functions would provide a stronger outcome-based orientation to the Azerbaijan programme. This may be contrasted with the current emphasis on institution-based initiatives where the emphasis is on sometimes narrowly-defined outputs. An outcome-oriented approach, incorporating flexibility in project design, could significantly increase the EC's contribution to reform in Azerbaijan and facilitate closer co-ordination and co-operation with other aid agencies in supporting a common agenda of structural reforms. Issues relating to the programming and management of Tacis assistance are considered in greater detail in Chapter 5, and the implications for the planning of future EC assistance in Chapter 6.

5. Tacis Programming and Management

The Evaluation found that the focus of Tacis on TA was appropriate, but that the programme needed to be seen as part of the broader support provided to Azerbaijan by the EC and by other aid agencies. The different Tacis instruments offer flexibility in the implementation of the Tacis activities, although in practice this has not been fully exploited. Procedures for the programming of Tacis assistance and for project cycle management have been defined. However, the effectiveness of the Tacis support is constrained by: the fragmented responsibility for its management; contracting procedures which are too lengthy and insufficiently flexible; limited co-ordination with the IFIs and other aid agencies; and insufficient resources within the EC to pursue an effective policy dialogue, particularly at the level of sector reform programmes. Timely measures to address these issues could considerably improve the efficiency and effectiveness of Tacis activities.

A. Introduction

5.1 The previous two chapters emphasised the role of technical assistance (TA) in facilitating and supporting policy and institutional reform in a transitional economy such as Azerbaijan. They highlighted the importance of TA being focused towards priority measures, responsive to a rapidly evolving reform agenda, and timely in its provision. Tacis assistance also needs to be well co-ordinated with the support to Azerbaijan's reform *programme* being provided by the IFIs and other aid agencies. In a number of cases the assistance provided under the Tacis programme had not met these criteria and as a result had been less effective than it might otherwise have been.

5.2 The present chapter considers the extent to which the arrangements for the management of Tacis assistance in Azerbaijan contribute towards the realisation of relevant and effective programme outcomes. The approach adopted is to look at key aspects of the Tacis management process and the extent to which they reflect established norms and best practice for the management of TA (Box 5.1). Specifically, the chapter considers: (i) the appropriateness of Tacis instruments (Section B); (ii) the strength of the Tacis programming cycle (Section C); (iii) issues relating to project cycle management (Section D); (iv) the suitability of the institutional arrangements for programme management (Section E); and (v) the effectiveness of co-ordination with the IFIs and other aid agencies (Section F). The final section draws together the main conclusions of the chapter, providing the framework for the recommendations made in Chapter 6 for improving management of EC assistance under the next programming cycle (Section G).

B. The Appropriateness of Tacis Instruments

The Focus on Technical Assistance

5.3 Although TA provided through the national Tacis Action Programme (AP) and regional Inter-State Programme (ISP) have been at the centre of EC assistance in Azerbaijan, considerable EC financing has also been provided in the form of emergency assistance and food security support and more recently in rehabilitation funding. Over the period 1995-98 non-TA funding accounted for around 60% of total disbursement of EC development assistance to Azerbaijan¹. Nevertheless, the perception in Azerbaijan of EC assistance is of a programme dominated by TA, in which a major

¹ See Chapter 2.

share of resources flows back to EC member countries as payments to consultants. A number of GoA officials, while acknowledging the potentially crucial role of TA, emphasised the importance of complementing this technical assistance through increased provision for financing of capital projects.

Box 5.1: Norms and Best Practice for Technical Assistance

In assessing the programming and management of the Tacis assistance in Azerbaijan, the Evaluation applied the “principles for new orientations in technical co-operation” set out in the manual on “Principles for Effective Aid” prepared by the Development Assistance Committee (DAC) of the OECD.

These principles emphasise that “*technical co-operation can only be as effective as the policies of the receiving structures of the recipient, and it’s the very function of the technical co-operation to strengthen them*” (p51). The manual goes on to set out the following principles for technical co-operation:

- *“set as strategic objectives of technical co-operation long-term capacity building countries rather than immediate short-term performance improvement;*
- *put great emphasis on the central role of recipient countries in the planning, design and management of technical co-operation;*
- *stress the essential importance for effective technical co-operation of improved planning in the context of co-ordinated support for sectoral objectives and policies and, in particular, use of a programme rather than a project-by-project approach;*
- *encourage “ownership”, i.e. responsibility and control of technical co-operation programmes and projects at all stages by the intended beneficiaries through participatory approaches, including local NGO participation;*
- *emphasise the key importance for sustainable development and self-reliance of long-term institution-building especially in the areas of policy analysis and development management;*
- *take into account the new recognition of the private sector needs for technical co-operation;*
- *encourage greater use of local expertise and existing structures;*
- *define objectives in terms of outcomes to be achieved rather than inputs to be provided; and*
- *stress the need to pay greater attention to the costs and cost effectiveness of technical co-operation activities”* (pp52-53).

In applying these principles to a transitional economy, such as Azerbaijan, technical co-operation has to be able to adjust to the rapidly changing policy and institutional environment, where progress is not always even-paced reflecting the considerable resistance to reform among some stakeholders. In this situation technical co-operation needs to be flexible, able to respond as opportunities for reform open up, and hold back when planned reforms and other prior actions are not implemented. Technical co-operation also needs to be appropriately phased, focusing initially on the enabling legislative and policy framework before supporting institutional reform and development.

Development Assistance Manual: DAC Principles for Effective Aid, OECD (1992)

5.4 In the context of the broader programme of EC assistance to Azerbaijan and of the support being provided by the IFIs and other aid agencies, the Evaluation found that the TA focus of the Tacis programme had been appropriate:

- In a transitional economy like Azerbaijan, the requirements for TA to support essential legislative, policy and institutional reforms are substantial. Such reforms are necessary both to encourage private sector investment and to provide an environment in which public investment can be effective².
- Governments are understandably reluctant to use borrowed funds to meet TA costs. As the major source of grant financing, it was logical for the EC to include TA as a major element of its assistance to Azerbaijan, particularly if this could be used to complement the investment and budgetary support operations of the IFIs.
- The TA focus was also consistent with the PCA and its proposals for achieving closer political, economic and institutional alignment with the EU.

5.5 Nevertheless, the Evaluation found that the perception of the Tacis programme among those interviewed was not always favourable. To some extent this reflected the questions raised in Chapters 3 and 4 over the performance of some projects and their relevance to the reform agenda. However, it may also have reflected the relative isolation of Tacis activities from other areas of EC support. Better integration of Tacis provided TA and the capital and budgetary support financing provided by

² See Chapter 3.

the EC, the IFIs and other aid agencies could also be expected to improve the perception and understanding of the role of Tacis (see Section F below).

Use of Tacis Instruments

5.6 In theory, the range of Tacis instruments should give considerable flexibility to the management of the programme by providing: (i) concentrated support in the focal areas through TA projects; (ii) support to specific initiatives through the Small Projects Programmes (SPPs); and (iii) rapid assistance in key policy areas through the Policy Advice Programme (PAP). Among TA staff and officials interviewed, there was a perception that the PAP and other SPPs tended to operate more effectively than the larger TA projects (Box 5.2).

Box 5.2: Are Small Projects More Effective?

Among both the Tacis monitors and staff in the Tacis Co-ordination Unit in Azerbaijan (CU), there was a perception that the PAP and other SPPs functioned more effectively than the larger TA projects. This conclusion was also supported by evidence from the monitoring reports as well as by the findings of other Tacis evaluations. The Evaluation found that there were a number of reasons why SPPs were likely to be more effective:

- Once the multi-country framework contracts had been awarded, the SPPs could respond quickly to requests from the GoA and were thus able to provide timely advice and assistance appropriate to a rapidly evolving policy and institutional environment.
- The advice provided was highly focused and effectively linked to the agenda of the GoA and beneficiary institutions. Requests for assistance came directly from the beneficiaries and were usually well integrated with on-going initiatives and work programmes.
- The programmes had operated with considerable continuity over a number of years, allowing for effective administrative procedures to be developed. The programmes and what they offered were well understood by the beneficiaries.

By contrast, the potential effectiveness of TA projects was seen as often being compromised by insufficient involvement of the beneficiary institutions in project identification and preparation, and overly long project lead-in times.

5.7 The Evaluation found that linkage in the use of the different instruments was extremely limited and that they were mostly operating independently of each other. Thus:

- there were no cases of where the PAP had been used to provide critical support in advance of the arrival of longer-term TA teams, even though, given the long lead-in times for TA projects, such support could have played a crucial role;
- similarly there were few examples of the PAP being used to address critical legislative and policy issues on which the success of individual Tacis projects depended; and
- SPPs, such as the Tempus programme in higher education and the City Twinning programme, operated in the absence of any wider support in addressing the policy issues facing their respective sectors.

5.8 The lack of such integration would appear to reflect the absence of a broader sector programme management capacity within the Azerbaijan Tacis programme (see Section E below).

C. Strength of the Tacis Programming Cycle

5.9 Since 1993 the Tacis programme in Azerbaijan has followed a multi-year indicative programming cycle³. Separate indicative programmes have been prepared for the multi-country ISP and the national AP. Both programmes follow a broadly similar programming cycle (Box 5.3). The Evaluation considered the extent to which the Tacis programming cycle facilitated the realisation of the objectives of the programme to support the process of reform and restructuring in Azerbaijan. It

³ The first indicative programme (IP) covered the period 1993-95 and the second IP the period 1996-99.

identified issues relating to the quality of the programming process, the effectiveness of the policy dialogue on which it was based, and management at the sector programme level.

Box 5.3: 1996-99 Tacis Indicative Programme for Azerbaijan – Programming Cycle	
Stage	Date Finalised
<p><u>Indicative Programme Strategy Paper (IPSP)</u></p> <p>The IPSP provided the broader framework and context for the preparation of the 1996-99 IP. It included: (i) a brief overview of the macroeconomic situation in Azerbaijan; (ii) an analysis of political developments and of relations between the EU and Azerbaijan; (iii) a review of the on-going activities of Tacis and other major aid agencies; and (iv) proposals and geographical focus for future co-operation.</p>	June 1996
<p><u>Indicative Programme (IP)</u></p> <p>The IP sets out the basic objectives and strategy for Tacis in Azerbaijan, taking into account economic reform priorities and economic circumstances. Formally, the IP is prepared in co-operation with the GoA. The first draft of the 1996-99 IP was prepared by the EC and received by the CU in June 1996. After receiving comments from the CU, the IP was finalised by the EC.</p>	March 1997
<p><u>Action Programme (AP)</u></p> <p>The AP sets out the individual projects and activities to support the sector objectives established in the IP, and allocates funding to these activities. Since 1996 APs have been prepared every two years. Formally the process of preparing the AP begins with a request to the CU to identify projects consistent with the IP. This results in a lengthy list of projects being prepared, a process referred to by the Executive Director of the CU as “going to Brussels with a suitcase of project proposals”. This list is then discussed and the projects prioritised together with the EC. Thereafter, the project proposals are developed in greater detail during visits by EC staff and consultants. A final draft of the AP is then presented to the CU with more detailed project outlines (fiches) attached. For the 1996-97 AP the initial list of projects was discussed during September 1996 with the AP finally being approved in March 1997.</p>	1996-97 AP Mar '97 1997-98 AP Nov '98
<p><u>Implementation of AP Activities</u></p> <p>Following approval of the AP, involves finalisation of the ToRs for the projects included in the AP, tendering of project implementation contracts, and the implementation of AP projects which typically span a 18-24 month period.</p>	Up to 3 years from AP approval

Quality of the Programming Process

5.10 Initially the Tacis programming process reflected a strong “top-down” process with almost identical projects being developed for the different NIS countries. This approach was influenced by the requirement to establish a large TA programme in a relatively short period with very limited staff resources. Under the 1996-99 IP, the emphasis was formally shifted towards a more “bottom-up” approach with greater GoA involvement in the preparation of the IP and with GoA required to identify and propose projects for financing. In practice, this resulted in relatively little change.

- The IPSP, intended as an internal EC document, was not discussed with the GoA. The depth of analysis was very limited. For example, it contained no discussion of Azerbaijan’s economic reform programme and its implications for the assistance provided by Tacis and other aid agencies. Similarly, there was little attempt to incorporate experience from on-going Tacis projects into the programming of future Tacis assistance⁴.
- The content of the 1996-99 IP was similar to the IPSP, but with more detailed description of the selected areas of co-operation. However, it was overly focused on describing on-going Tacis initiatives, rather than on defining priorities for co-operation. The usefulness of the IP as a framework for planning Tacis activities was therefore somewhat limited.
- The inability of the GoA to prioritise project requests sufficiently and its limited capacity to prepare project proposals meant that projects were in practice selected and then prepared by the EC, often representing a follow-up to existing project activities.

⁴ See Chapter 3, Sections B and C.

5.11 Under the proposed new EC Regulation covering EU co-operation with the NIS for the 2000-06 period, it is the intention that the programming process should in future be based on a policy dialogue between the EU and Azerbaijan linked to implementation of the PCA.

Effectiveness of Policy Dialogue

5.12 Any TA programme aiming to support economic reform needs to be based around a policy dialogue, so that TA resources are directed towards assisting the government in addressing key aspects in the reform process. The Evaluation found that the policy dialogue between EC and GoA had been limited and intermittent, both at the overall country programme level and within individual sectors. In addition, the participation or alignment of Tacis support to the policy dialogue between the IFIs and the GoA had also been limited. Thus, in the Policy Framework Paper (PFP), Tacis is not seen as a significant source of TA to support structural reforms under the ESAF programme.

5.13 A stronger dialogue linked to a more active engagement with the IFIs supporting the ESAF process might have resulted in a more effective use of Tacis resources. However, for this to have been effective it would have required substantially increased staff inputs into the management of the programme, more frequent country visits by personnel from the EC and considerably enhanced sectoral policy expertise in Brussels. The absence of a Delegation in Azerbaijan also made it difficult for the EC to maintain an active and continuous policy dialogue with GoA. These issues will need to be addressed if future EC assistance is to be based on a regular policy dialogue as proposed in the draft regulation.

Management at the Sector Programme Level

5.14 Tacis support for individual project initiatives carries the implicit assumption that the core sectoral policy and institutional reforms on which the success of the project depends are in place⁵. This implies the need to manage project interventions within a broader sectoral context. For support provided under the AP, projects have at times been implemented in the absence of the sector policies and strategies necessary for their success. For example, projects to support the establishment of the Ministry of Fuel and Energy and the setting up of an Energy Saving Centre were predicated on institutional restructuring and pricing reforms which did not take place. Similarly, Tacis support to the Small and Medium Enterprise Development Agency was continued despite the persistence of a regulatory environment unfavourable to private enterprise. One consequence has been that the impact of the assistance provided in these sectors has been considerably less than might otherwise have been achieved⁶. The situation was considerably better in the transport sector where there was much greater coherence in the management of Tacis support provided under the ISP (Box 5.4). Issues relating to the strengthening of sector programme management are considered further in section E below.

Box 5.4: Effective Programme Management – Tacis Assistance in the Transport Sector

Tacis assistance to the transport sector in Azerbaijan under the regional Traceca programme has been characterised by a coherent approach to programme management. This has allowed a strong dialogue to be built up with the GoA, backed up by successful co-operation with other aid agencies. As a result the Traceca initiative has established an effective framework for co-ordinating investment in regional transport links that is respected by both the regional governments, the IFIs and other aid agencies.

The following factors were identified as having contributed to successful management of the programme:

- a capacity in Brussels to manage the sector programme and to co-ordinate with other aid agencies involved in the sector;
- the use of explicit regional forums for pursuing policy dialogue and programme co-ordination; and
- continuity in Tacis TA personnel backed up by a specific role in pursuing dialogue and co-ordination.

⁵ See Chapter 4.

⁶ See Chapter 4.

D. Project Cycle Management Issues

5.15 The Evaluation identified a number of problems in the way in which the Tacis project cycle operated in Azerbaijan (summarised in Box 5.5). These related to: (i) weaknesses in the early stages of the project cycle; (ii) discontinuity between project design and start-up; (iii) limited flexibility to adjust project inputs during implementation; and (iv) insufficient integration of monitoring information into programme management. Each of these issues is considered below.

Attention to the Early Stages of the Project Cycle

5.16 Resources available for the early stages in the project cycle covering strategy development, country programming, project identification and project preparation have been very limited. As noted in the previous section this has resulted in strategies and programmes that: (i) are insufficiently detailed, particularly at the sector level; (ii) reflect only limited policy dialogue with the GoA; and (iii) are insufficiently integrated with the programmes of other aid agencies and the IFIs. One consequence is that projects are often identified and implemented in relative isolation and without the support of a strong sector strategy and programme framework. This can lead to problems during implementation and also makes it less likely that project outputs and experiences will be fed back into subsequent sector strategy and programming exercises⁷.

5.17 The typical procedure for project identification and preparation involves a consultant visiting Azerbaijan for 1-2 weeks to develop a project fiche for inclusion in the AP and also to prepare draft terms of reference (ToRs). The opportunity to understand the complexity of the policy and institutional reform process in Azerbaijan and to develop the project design in collaboration with the beneficiary is consequently quite limited. This can result in project choices that do not adequately reflect the situation and priorities in Azerbaijan⁸. The potential problems arising from the limited input into project design can be further compounded, in the case of institution-building projects, by the need for projects to be implemented over a relative short period, not exceeding 24 months, which can lead to unrealistic assumptions about project targets and sustainability⁹.

⁷ Tacis experience with supporting SME development would appear to reflect these limitations.

⁸ Examples of projects not reflecting GoA priorities include: The Telecommunications Training Centre, the Reform and Development of the Employment Service, Support to Ministry of Fuel and Energy, and the Energy Saving and Management Centre.

⁹ This point was made forcefully in the meeting with Member States' Ambassadors in which it was emphasised that institution building in Azerbaijan was a long-term process, and that this needed to be reflected in the design of TA assistance.

Box 5.5: Project Cycle Management

Procedures for the identification, formulation, implementation, monitoring and evaluation of Tacis projects follow a standard project management cycle¹⁰. The early stages of the project cycle, involving the definition of strategy and the identification and development of the project concept are integrated into the preparation of the AP and ISP. The subsequent stages focus around the preparation of the terms of reference, tendering and mobilisation, implementation, monitoring and evaluation.

Stage	Content/Remarks	Time Taken
Strategy	Indicative Programme Strategy Paper (IPSP) and four-year Indicative Programme (IP).	96-99 IPSP: 6 months 96-99 IP: 15 months (after start of IP year 1)
Identification & Formulation	Projects identified consistent with IP in two-year Action Programme (AP). Initial project list provided by GoA. Projects selected jointly by GoA and EC. EC finalises project fiche for inclusion as annex to AP.	96-99 AP: 15 months 98-99 AP: 11 months (after start of AP year 1)
Preparation & Appraisal	Preparation of detailed ToRs for the TA is carried out following approval of the AP. This is typically done by consultants hired by the EC, often concurrently with the preparation of the project fiche. The draft ToRs are then sent to the CU for comment. Once the comments of the CU are received, the ToRs are then finalised and sent back to the GoA for final approval and the issuing of a "Statement of Endorsement" (SoE). In October 1999, there were still three projects in the 1998-99 AP for which terms of reference had not been finalised. These were: (i) Support for Large Scale Privatisation, where the ToRs are to be revised following agreement on a government strategy for the privatisation of large-scale enterprises; (ii) Establishment of an Azeri Legal and Policy Advice Centre, where revised terms of reference are awaited from SCR; and (iii) Social Protection and Pension Reform, where the GoA has been unwilling to approve the draft ToRs.	96-97 AP: 14 months 97-98 AP: 7 months (after start of AP year 1) 96-97 AP: 2 months 97-98 AP: 4 months (after receipt of ToRs)
Commitment	Once the ToRs have been finalised, the next stage is for the TA contract for a project to be tendered. The GoA is a member of the tender evaluation committee. Following tender evaluation, the contract is drawn up between the successful bidder and SCR, with mobilisation following within one month.	96-97 AP: 4 months 97-98 AP: 8 months (after issuing of SoE) 96-97 AP: 3 months 97-98 AP: 4 months (after tender eval.)
Implementation	The implementation period for Tacis projects is normally 18-24 months, sometimes shorter for projects which are financing feasibility studies for the preparation of a specific piece of legislation. The Inception Report, prepared after 2-3 months, represents a key stage during implementation since it provides an opportunity to adjust inputs to reflect developments that have taken place since the preparation of the terms of reference	18-24 months
Monitoring	A well developed system for monitoring Tacis projects has been established utilising independent monitors who report on project progress every six months, with more detailed reports at the Inception Report stage and on completion of the project. Azerbaijan is covered by the team monitoring the three Caucasus countries. The monitoring reports assess progress in: (i) implementation; (ii) achievement of outputs; (iii) appropriateness of the workplan; (iv) ability to achieve objectives; and (v) potential sustainability. The monitoring reports are circulated to the EC, the Tacis CU, the project beneficiary institutions and the TA team.	After Inception Report Every 6 months At Project Completion
Evaluation	As yet, no separate evaluations have been undertaken of Tacis projects in Azerbaijan. However, the End of Project Assessment Report prepared by the Tacis Monitors provides some assessment of project outcomes. A number of multi-county evaluations of Tacis SPPs have been undertaken. Additionally an evaluation of the interstate transport programme (Traceca) has been carried out while a multi-country evaluation of energy programmes (Inogate and national energy projects) is currently under way.	

¹⁰ See "Tacis Programming and Funding – Project Cycle Management", Tacis and Phare Information Centre.

Continuity Between Project Design and Start-Up

5.18 The average time taken between receipt of the draft ToRs by the CU and the arrival of the TA team increased from 9 months for projects under the 1996-98 AP to 13 months for projects under the 1998-99 AP¹¹. These delays appeared to relate primarily to the processing of the project within the EC. Delays attributable to obtaining the SoE from the GoA averaged less than two months, although where substantive issues did occur these could prove difficult to resolve (Box 5.6). For a TA programme that is intended to be directly supporting a fast evolving reform agenda, such delays can be considered excessive and risk consequences of either holding up the pace of the reform process or of TA teams arriving with ToRs which are out of date and no longer relevant.

5.19 In theory, it might be possible to minimise the impact of these delays by maintaining an on-going dialogue on project related issues between the beneficiary and the EC and by scheduling short-term TA inputs to address the most urgent issues through the PAP. However, the Evaluation found little evidence of this occurring and such dialogue was limited primarily to resolving issues raised by the beneficiary relating to the ToRs.

Box 5.6: Delays in Issuing a Statement of Endorsement – the Pensions Reform Project

The 1998-99 AP included a €1.2 million allocation for support to Pensions Reform. The assistance is aimed at: (i) “reform of the social protection, particularly in the field of pensions, including its legislative base, organisational structure and management set-up”; and (ii) establishing “an adequate monitoring system to assess the real needs of the population and to effectively control the quality and level of social protection”.

Consultants visited Azerbaijan in November 1998 to prepare ToRs for the project which were forwarded to the Ministry of Labour and Social Protection (MoLSP) the following month. Comments on the ToRs were submitted to SCR in January 1999. These resulted in revised ToRs being forwarded to GoA in May 1999. By then, the MoLSP had begun discussion with the World Bank on a larger project to support the reform of the pensions and social assistance programme. MoLSP was understandably anxious that the assistance of both aid agencies should be closely co-ordinated and therefore requested in May 1999 further changes to the ToRs for the Tacis project. A reply from Tacis was received in September 1999 requesting MoLSP to agree to the previous ToRs, but with the assurance that the ToRs could be revised at the Inception Report stage. At the time of the Evaluation, MoLSP was still reluctant to agree to the ToRs until it had reviewed them with the World Bank. The desk officer from the World Bank reported that she had no problems with the ToRs, but commented that she had had no contact with SCR over the issue.

A number of conclusions can be drawn. First, the process of finalising the ToRs had been unduly protracted. Although the issues raised appeared to be relatively minor, over 11 months had passed since the original mission to prepare the draft ToRs. Second, it is likely that the issues could have been resolved quickly through direct negotiation between the MoLSP and the EC. With the EC task manager unable to visit Azerbaijan and without an in-country Delegation, there was no opportunity for such negotiation. Third, the link between Tacis TA and future World Bank project funding was highly desirable. However, in the apparent absence of direct contact between the two organisations to discuss their respective roles, the basis for effective co-operation was open to question. In the circumstances, there would have been a good case for the EC Task Manager to have joined the World Bank mission working on the project.

Flexibility to Adjust Project Inputs During Implementation

5.20 The potential requirement for major adjustments to ToRs at the outset of project implementation has been increasingly recognised by the EC. This has resulted in project designs which are more flexible and process-oriented and a greater willingness to accept substantial changes to the ToRs proposed in the project Inception Report. However, the substantial time spent by TA teams in organising their logistical arrangements, such as securing office accommodation, often limited the capacity of contractors to reflect on the relevance of their ToRs and propose significant changes. There could also be a reluctance among contractors to adjust planned TA inputs for which personnel had already been contracted. Adjustments to project inputs also need to take account of the broader sector reform programme of which the project is part and to which the TA team may not be party. This Evaluation concluded that implementation of Tacis projects would be facilitated by stronger

¹¹ Excluding projects which had not commenced implementation by the beginning of November 1999.

technical and professional back-up from the EC at the sector programme level. However, the capacity to provide such back-up appeared to be very limited (Section E).

Integration of Monitoring Information into Programme Management

5.21 Since 1995, the Tacis programme has developed a very comprehensive monitoring system which has been seen as a model potentially applicable to other EC aid programmes. The system emphasises the independence of the monitors whose reports are submitted to the EC, the TA team, the beneficiary institution and the Tacis Co-ordination Unit in the GoA. The quality and timeliness of the monitoring reports is very good. However, the Evaluation found that the monitoring process was too focused on the achievement of project outputs, with little attempt to view project outcomes within the context of a broader sector programme context.

5.22 A further concern was the use made of the monitoring reports and the extent to which they influenced project and programme management. Both monitors and project team leaders considered that the monitoring reports were of greatest use to the project TA teams, particularly in the absence of significant technical supervision by the EC during project implementation. They appeared to be relatively less used by task managers in the EC or by the CU. At the request of SCR, a response sheet was introduced in early 1999 into the monitoring reports to enable task managers to indicate what action was being taken on issues raised in the monitoring reports. However, it was subsequently dropped after no responses were received from task managers. Limited use appeared to be made by the beneficiary institutions of the monitoring reports. This is both because western concepts of project monitoring are still new to Azerbaijan, and also because the monitoring relates to grant TA activities over which GoA exercises relatively little ownership.

E. Suitability of the Institutional Arrangements for Programme Management

5.23 For what is a relatively small country programme, the arrangements for managing the Tacis programme in Azerbaijan are surprisingly complex (Box 5.7). The Evaluation found that the diffusion of programme management responsibilities resulted in some overlapping of responsibilities and a lack of clarity in roles. One consequence was that the resources available for management of the Tacis programme, while limited, appeared not to be utilised as effectively and efficiently as possible. Specific issues related to the separation of programme and management responsibilities within the EC, the absence of an in-country programme management presence, limited capacity for day-to-day management of the programme at either country or sector programme level, and the lack of clarity in the role of the CU.

Separation of Programme and Project Management Responsibilities

5.24 The establishment of SCR had resulted in a separation between responsibilities for country and sector programming, which remained with the DG for External Relations, and project task management, which was transferred to SCR. It could be expected that one consequence of such a separation would be the weakening of links between projects and the wider sector reform programmes of which they are part. In neither the DG for External Relations nor SCR were there dedicated country desks responsible for Azerbaijan, while sector task managers in SCR have no responsibility for wider programme planning and management in their sectors.

Box 5.7: Tacis Programme in Azerbaijan – Main Actors	
<p>Responsibility for management of the Tacis programme and its constituent projects is divided among several different bodies, principally the Directorate General for External Relations, the Joint Service for the Management of Community Aid to Non-Member Countries (SCR), the Tacis Co-ordination Unit in Azerbaijan (CU) and the Tacis Monitors. Unlike most other NIS countries there is currently no EC Delegation in Azerbaijan, although there are plans to establish one in the near future.</p>	
<p>European Commission Directorate General for External Relations: Europe and the NIS</p>	<p>The DG for External Relations has responsibility for proposing the overall strategic direction of the Tacis programme in Azerbaijan, formulating budget proposals for approval by the Council and European Parliament, and in collaboration with GoA allocating funding between different projects and activities. It also has responsibility for co-ordinating implementation of the PCA on behalf of the EC.</p>
<p>European Commission Joint Service for the Management of Community Aid to Non-Member Countries (SCR)</p>	<p>SCR, which was established in mid 1998, is responsible within the EC for managing the implementation of projects included under the Tacis programme. This includes preparation of terms of reference, tendering of TA projects and overseeing project implementation. The SCR also contracts the Tacis Monitors and the TA team provided to the Co-ordination Unit. Within SCR, responsibility for Azerbaijan falls under Unit A3 which is organised on a thematic basis with contracts managed by the relevant sector specialist. In November 1999, Unit A3 had a total of 30 professional staff who were responsible for managing € 500 million of annual commitments under the Tacis programme.</p>
<p>Government of Azerbaijan Tacis Co-ordination Unit in Azerbaijan (CU)</p>	<p>Within the GoA, the CU is responsible for (i) providing GoA inputs into the preparation of the IP and AP; and (ii) signing of the Financing Memoranda by the National Co-ordinator; (iii) supporting the implementation of the AP involving reviewing ToRs prepared by the EC, ensuring issuance of the Statement of Endorsement (SoE) by the project beneficiary and commenting on monitoring and evaluation reports; (iv) advising potential project beneficiaries on Tacis objectives and procedures; and (v) providing information on Tacis activities to aid agencies, potential investors and the general public in Azerbaijan. As such, the role of the CU is essentially responsive to initiatives and actions taken by the EC, and it plays only a limited role in the programming of assistance and selection of projects.</p> <p>The CU is part of the Department of Foreign Investment and Technical Assistance in the Council of Ministers. The Department reports to a Deputy Prime Minister who is also the Tacis National Co-ordinator. The CU has a staff of seven Azeri officials headed by an Executive Director. In common with other CUs in the NIS, it is assisted by two expatriate experts. In addition to advising the Co-ordination Unit, the two expatriate experts have specific responsibility for advising on and advertising EC programmes, in assisting the EC with the organisation of visiting missions and, in the absence of an EC Delegation, reporting back to the EC on political and economic developments in Azerbaijan. They are also responsible for managing the equipment and financial support provided by the EC to the Co-ordination Unit.</p>
<p>Tacis Monitors</p>	<p>The monitoring of Tacis projects and activities is undertaken by an independent team of monitors appointed by the EC who cover the three Caucasian countries. The team is based in Tbilisi, but maintains an office in Baku, which is staffed by local experts.</p>

In-Country Capacity for Programme Management

5.25 As noted earlier, effective external support for the reform process in transitional economies requires regular contact and dialogue between the aid agency and the recipient government. In the absence of an EC Delegation, there was no in-country capacity in the EC to manage the Azerbaijan programme. Visits from country desk officers in the DG for External Relations and project task managers in SCR are relatively infrequent¹². An in-country capacity for programme management,

¹² The Country Desk Officer makes 2-3 visits per year. Visits by project task managers are generally limited to 1-2 per year.

appropriately mandated, would facilitate the policy dialogue and in the management of individual sector programmes.

Role of the Co-ordination Unit

5.26 The Tacis Co-ordination Unit in Azerbaijan represents a considerable resource for programme management. The seven national officials in the CU demonstrated considerable competence and understanding of their portfolios and have an extensive knowledge of Tacis procedures. The current two-person team of expatriate advisers had also taken initiative in advising the unit and in promoting Tacis operations within Azerbaijan.

5.27 The Evaluation found that there was a general lack of clarity in the role of the CU stemming from its ToRs. These emphasised the functions of the CU in the programming and pre-implementation stages of projects, but limited its responsibilities during project implementation to *“facilitating the experts’ work in the execution of their tasks”* and *“receiving and commenting on monitoring and evaluation reports to the EC’s services”*. Consequently, the CU was not effectively involved in project implementation and in the management of the EC programme¹³.

5.28 The role of the CU in the preparation of the IP and APs has been more restricted than implied by its ToRs with much of the initiative instead being taken by the EC (see Section C above). Furthermore, because the CU is a government office, it has not been well placed to pursue EC support for democracy, civil society and non-governmental organisations (NGOs), particularly because of the ambivalent relationship between government and NGOs¹⁴. A further issue is the appropriateness of GoA having established a separate co-ordination unit for the Tacis programme, when no such units exist for other aid agencies and the IFIs (Box 5.8).

Box 5.8: Are Separate Donor Co-ordination Units a Good Idea?

International best practice suggests that external assistance is most effectively co-ordinated where there is a strong and well-defined government programme to which it can be applied, and that such co-ordination may be facilitated by the existence of a small aid co-ordination unit that works together with all aid agencies.

In the case of Azerbaijan, without an EC Delegation, there were special circumstances which justified the establishment of a separate CU to facilitate the setting up of the Tacis programme. With the planned establishment of an EC Delegation in Baku, the future role and staffing of the CU will need to be reviewed. At the very least, there appeared to be little justification for continuing the present level of EC technical assistance to the CU. One option would be for the GoA to handle EC aid in the same way as other donor programmes through a national desk officer within the Department of Foreign Investment and Technical Assistance in the Cabinet of Ministers.

5.29 Implementation of the PCA will also impose new and separate secretariat demands on the GoA particular to service the work of the Co-operation Council and Committee. However, this is a somewhat separate function from the co-ordination of the EC assistance programme and likely to require separate institutional arrangements.

F. Effectiveness of Co-ordination with Other Aid Agencies

5.30 With only a small number of donor agencies operating within Azerbaijan, aid co-ordination should pose fewer problems than in countries in which aid flows are more significant. For the Tacis programme, co-ordination with other donor agencies particularly the IFIs, is of particular importance¹⁵. This is both because of the need for Tacis TA to be co-ordinated with the wider

¹³ In the past, the CU had arranged meetings of Tacis project team leaders, but none had been held during the previous twelve months.

¹⁴ Discussions with representatives of civil society highlighted their perception of Tacis as a “programme for Government”.

¹⁵ As noted in Chapter 2, EU Member States were not a major source of aid, accounting for less than 10% of total aid disbursements between 1993 and 1998.

international support for the reform programme in Azerbaijan and because of the potential role of Tacis in providing TA in support of the structural adjustment or capital lending programmes of the IFIs.

5.31 While visiting EC officials usually met with other donor agencies represented in Azerbaijan, co-ordination appeared to be insufficient. Other aid agencies were often unaware of Tacis activities and vice versa. With the exception of the Traceca programme, there was reported to have been little regular contact between EC task managers involved with the Azerbaijan programme and their counterparts in other donor agencies. The lengthy lead-in times for Tacis projects had also led to some agencies discounting Tacis as a potential source of TA for their programmes¹⁶.

5.32 Co-ordination was made difficult by the absence of an in-country EC representation as well as by the limited sector programme management capacities within the EC. Where such capacity existed, as in transport and energy, co-ordination tended to be better and had been very effective in the case of transport. In the proposed support for pensions reform, despite a decision having been made to link the Tacis assistance to a World Bank operation, there appeared to have been little discussion between the respective task managers over how to ensure that effective co-ordination was achieved¹⁷. In the view of the Evaluation, it was these issues, rather than the absence of formal mechanisms for donor co-ordination, which represented the major constraints to better co-ordination of Tacis assistance with that provided by the IFIs and other aid agencies.

G. Conclusions

5.33 Procedures for the programming and management of Tacis assistance in Azerbaijan have evolved over a relatively short time period. The range of Tacis instruments offers significant flexibility in the implementation of programmes, while programming and project cycle procedure have been well elaborated. However, in the face of staffing constraints within the EC short-cuts have at times had to be made¹⁸, and in some cases these have adversely affected programme and project outcomes. Box 5.9 summarises our assessment of the Tacis programme in Azerbaijan against the DAC principles for technical co-operation¹⁹.

5.34 The Evaluation identified the fragmentation of management responsibilities and the limited management capacity at country and sector programme level as being the major constraints to successful programme implementation. This had resulted in project interventions being seen in isolation from broader sector policies and strategies of which they were part, and in a preoccupation with project implementation procedures with insufficient emphasis on the outcomes of the reform processes being supported by Tacis. There was little linkage between the Tacis programme and the other forms of EC development assistance being provided to Azerbaijan. In those sectors, such as transport, where Tacis activities had been well co-ordinated with that of the IFIs and other aid agencies, they had generally proved more successful and the role of TA was better understood. However, such co-ordination and co-operation had been limited by programme management capacities and by the absence of an EC representation with clearly defined programme management responsibilities. Delays within the project cycle had also affected the ability of Tacis to deliver appropriate advice at the right time and had made co-operation with other aid agencies problematic.

¹⁶ This point was made by the Resident Representative of the World Bank, although with the qualification that he would like to see much closer collaboration particularly in the context of the new programme for public sector reform.

¹⁷ The need for such co-ordination was apparent, particularly as there were unresolved problems in obtaining an SoE for the Tacis ToRs with the resulting delays having implications for the World Bank's own operation. However, the World Bank task manager, commenting on the lack of direct contact, remarked that she was not clear who in Brussels she should be contacting to discuss the issue.

¹⁸ Examples include the limited GoA involvement in the preparation of the Indicative Programme and in the preparation of project ToRs.

¹⁹ See Box 5.1.

Box 5.9: Norms and Best Practice for Technical Co-operation – An Assessment of Tacis in Azerbaijan		
Criteria	Achievement (1= substantial; 5 = minimal)	Remarks
Long-term capacity building.	4	Made difficult by relatively short-term duration of Tacis projects.
Role of recipient country in planning, design and management of technical co-operation.	2/4	Tacis procedures provide for extensive participation of GoA (score of 2). In practice the involvement of GoA in programming and project preparation is more limited (score of 4).
Co-ordinated support for sector objectives and policies linked to a programme rather than project approach.	4	Programme perceived by GoA and managed by EC as a collection of projects. Very limited dialogue between EC and GoA at sector policy and programme level.
Recipient responsibility for and control of technical co-operation through participatory approaches.	3/5	GoA endorses ToRs and involved in consultant selection (score of 3), but consultants contractually responsible to EC (score of 5).
Long-term institution building in policy analysis and management.	2/4	Considerable success in some sectors (e.g. transport) (score of 2), less in others (e.g. energy) (score of 4). In other sectors Tacis has shifted to supporting line functions even where policy framework is weak (score of 4). PAP has played catalytic role in some sectors (score of 2).
Recognition of private sector needs for technical co-operation.	2	Reflected in sustained support for SME development and agriculture. However, impact has been reduced by the lack of enabling legislative and policy frameworks.
Focus on outcomes rather than inputs to be provided.	4	Programme management focused on project implementation rather than realising sector objectives and strategies.
Attention to cost-effectiveness.	4	Cost effectiveness undermined by long project lead-in times, and limited capacity to adjust timing of TA inputs to changing conditions and priorities.
Note: Where two scores are shown, results have been mixed. The remarks explain the reasons for each score given.		

6. Implications for Future EC Assistance

The Evaluation has emphasised the need to improve the management of the EC's programme in order to boost its overall effectiveness. The main recommendation for the planning of future EC assistance is to move to a sector-wide programme approach supported by locally-based professional management capacities. This would enable co-ordination in the use of different EC instruments while facilitating better linkage with the assistance provided by other aid agencies. The selection of future areas of assistance should be based on the existence of an appropriate framework for sector reform, clear GoA commitment to the reform process, an emphasis in the EC assistance in supporting primary policy and institutional reforms, and complementarity with other aid agency assistance.

A. Introduction

6.1 The chapter draws together the conclusions from the Evaluation and makes proposals for the future programming of EC assistance to Azerbaijan for the 2000-2003 IP. It begins by considering the measures necessary for improving the relevance and impact of EC assistance, focusing on the introduction of a sector-wide programme approach which is the key recommendation of the Evaluation (Section B). It then goes on to consider the ways in which programme management could be strengthened (Section C). The final section presents suggestions for the selection of areas for future co-operation (Section D).

B. Improving the Relevance and Impact of EC Assistance

Summary of Main Findings

6.2 The EC has the potential to play a crucial role in facilitating the reform process in Azerbaijan. As the largest provider of technical assistance, it should be taking the lead in supporting fundamental policy and institutional reforms, and in developing new institutional capacities. In practice, the Tacis programme has been insufficiently focused towards primary level reforms with the result that assistance has at times become dissipated among too many projects, sometimes in areas where the underlying environment for reform remains unfavourable.

6.3 The Evaluation found that the Tacis programme had generally had less impact than expected. There were a number of common factors which had determined the relative success of individual projects:

- EC activities have had most impact where the assistance: (i) had been valued and local participation and ownership were high; (ii) had been linked to building a longer-term relationship with a partner agency; (iii) had helped to build an appropriate legal or policy institutional framework; (iv) had been effectively linked to downstream investment financing; and (v) had been flexible enough to respond to the rapidly changing policy and institutional environment.
- EC assistance had generally been less successful where: (i) the institutional framework was not ready or appropriate; (ii) co-operation between different EC projects had been weak; (iii) the emphasis on establishing self-sustaining/self-financing entities had prevailed over that of the provision of services which were valued; and (iv) EC assistance had operated separately from that provided by other aid agencies.

6.4 The Tacis Programme has enjoyed high visibility among officials in Azerbaijan. There is positive appreciation of the activities supported by Tacis. However, this positive view has often reflected the perceived benefits of having a Tacis programme in a ministry or agency, such as increased status of the agency, greater opportunities for foreign travel, and opportunities to obtain equipment. This observation is further supported by the general perception that the Tacis programme has supported a collection of individual projects, not always linked to a common aim.

Recommendations

6.5 The future will look very different. Changes are being introduced to the EC assistance programme which are likely to mean greater integration across the different types of EC assistance, and better co-ordination with the work of other aid agencies. This is highly desirable both because the Tacis programme, the subject of this evaluation, has accounted for less than half of all EC development assistance to Azerbaijan since 1992 and also because it has been the major source of technical assistance available to the GoA. However, managing EC assistance as an integrated and targeted package of assistance will require that the present deficiencies in programme management structure be addressed. These have been reflected in weaknesses in the policy dialogue, in the programming process, and in the implementation and flexibility of the programme.

Introduction of a sector-wide approach

6.6 The main recommendation arising from the Evaluation is to move to a sector-wide programme approach for the management of the EC sector assistance. This would allow a more strategic framework to the management of the programme and would facilitate a team approach to the provision of aid agency support for economic reform in Azerbaijan. It would encourage wider Azeri involvement in the programming and management of EC assistance. It would also offer better prospects for success than the piecemeal pursuit of separately managed projects. The key features of the approach are that it would:

- be based on a set of agreed policy objectives for each sector receiving assistance, linked to a common goal;
- require an explicit and comprehensive medium-term strategy for achieving these strategic objectives, linked to a realistic assessment of institutional capacities and available resources;
- require co-ordination in the use of different EC instruments;
- involve greater collaboration with the GoA, NGOs and IFIs on the policy reform agenda;
- call for co-ordination with other aid agencies, particularly those providing capital financing; and
- require the establishment of appropriate management systems and procedures for reviewing sectoral performance against jointly agreed milestones and targets.

6.7 The sector-wide approach would necessitate a more robust policy dialogue between the EC and the GoA, which could be undertaken within the context of the PCA. It would also provide a framework for addressing issues of sustainability, which has become an increasingly problematical issue for the Tacis programme. Sustainability would be seen in the context of an agreed sector programme to which GoA was fully committed, rather than in more narrowly defined project terms.

Other measures to improve the relevance and impact of EC assistance

6.8 Shifting to a sector-wide programme approach, linked to a more robust policy dialogue within the PCA framework, can be expected to result in a more effective and appropriate assistance programme. Additional measures that could be taken to improve the relevance and impact of EC assistance include:

- placing more emphasis in project selection and design on supporting the policy, legislative and institutional frameworks and sector reform measures (Stage A reforms);

- ensuring that selected areas of co-operation are firmly rooted within the policy framework provided by the PFP and making explicit reference in the Strategy to how the EC is assisting with the implementation of these policies;
- restructuring the Strategy/IP document, making it comprehensive of all EC economic and technical assistance and setting out and listing more explicitly EC goals, objectives, strategies and activities in its strategy document; and
- improving co-ordination with other aid agencies by providing some or all of the technical assistance requirements of larger sector reform programmes supported by IFIs such as the pensions reforms and public sector reform initiatives currently under discussion with the GoA.

C. Strengthening Programme Management

Summary of Main Findings

6.9 Increasing the relevance and impact of EC assistance to Azerbaijan will require fundamental changes to the way in which the assistance is programmed and managed. At the same time, the introduction of a sector-wide programme approach will necessitate strengthened in-country capacities to manage EC assistance. Weaknesses in the programming and management of EC assistance identified during the Evaluation included: (i) a fragmented and insufficiently rigorous programming cycle; (ii) a very limited and weak policy dialogue; (iii) assistance focused on individual projects rather than broader programmes; (iv) inadequate involvement of GoA ministries and partner organisations in project design; (v) insufficient linkage between the different elements of the project cycle; (vi) excessive project start-up delays; (vii) insufficient flexibility to make adjustments during project implementation; (viii) a monitoring system which although effective is too focused on outputs rather than outcomes; and (ix) a fragmented programme management structure with, in the case of the CU, responsibilities inadequately defined.

Recommendations

6.10 Improving the performance of EC supported activities, the new emphasis on policy dialogue through the PCA mechanism and the proposed introduction of a sector-wide programme approach will require substantial strengthening of capacities for the management of the EC assistance programme in Azerbaijan. Measures will need to be taken in the following areas:

- Programme management capacities within the EC. Significantly increased staff resources with appropriate professional and management backgrounds are required to manage the programme and to allow for more frequent visits to Azerbaijan by task managers and the building up of an in-country management capacity. At the same time programme management needs to be more responsive to the rapidly changing environment in which EC assistance to Azerbaijan is being provided.
- Programme management within GoA. The shift towards a sector-wide programme approach implies that GoA should: (i) strengthen its programme management at the sector ministry level; and (ii) integrate responsibility for the co-ordination of EC assistance within its broader framework of managing international assistance to support economic and institutional reform.
- Better programme and project design. Programme and project design will need to be focused more towards the achievement of sector objectives and outcomes and less on project outputs and inputs. Within a sector programme, effective co-ordination of projects and SPPs is required to ensure greater continuity and consistency in approach. More attention should also be given to the sequencing of support utilising different EC policy instruments to ensure an appropriate sequencing of support, for example by using the PAP for needs analysis, defining the reform programme and building institutional commitment before committing longer-term technical assistance support. Programme design should

also take account of requirements for technical and professional back-up and supervision, and ensure that the necessary resources for these functions are available.

- Strengthen feedback mechanisms. The preservation and use of institutional memory is particularly important for technical assistance programmes. Feedback links between the different elements of the project cycle management need to be strengthened in order to ensure that lessons learnt from previous Tacis activities are fed into the design of new projects. Strengthening these links will also require better integration of monitoring information into the overall programming and management process.
- Co-ordination among aid agencies. Better integration of EC technical assistance within the broader support for Azerbaijan's reform process requires more effective co-ordination with other aid agencies. This could be facilitated by more regular professional contacts between Brussels and the IFIs providing assistance. Where relevant, EC sector managers should participate in joint missions with other aid agencies.

6.11 It is therefore recommended that the EC undertake a thorough review of the management arrangements for its programme in Azerbaijan. Specifically, this would need to consider: (i) the staffing and skill mix necessary to manage the programme effectively; (ii) the division of responsibilities between Brussels and the proposed Delegation in Azerbaijan; (iii) how to integrate more effectively the programming and operational management functions; (iv) the special requirements for in-country management associated with the sector-wide programme approach¹; and (v) the interface between the Commission and the GoA, and the associated measures necessary to strengthen GoA management of EC assistance.

D. Areas for Future Co-operation

6.12 One of the primary purposes of the Evaluation was to provide guidance for future rounds of programming EC assistance. This section considers the most appropriate areas for co-operation between the EC and the GoA for the 2000-2003 programming period. It also sets out criteria for choosing the sectors on which to focus future EC assistance.

Conclusions from the Evaluation

6.13 Chapters 4 and 5 highlighted four important criteria for technical assistance to have a positive and relevant impact on the GoA's reform programme. These were:

- The assistance should be provided within an appropriate and conducive legislative and policy framework, in which there is political commitment for public sector reform. An example of where such conditions did not apply and consequently where Tacis assistance had very limited impact was in the TA to assist in establishing the proposed Ministry of Fuel and Energy.
- Follow-on assistance should support sectors where the EC has already assisted with the policy framework and where the basis of a successful long-term relationship had been established. Conversely, the EC should pull out of areas in which its efforts have been less successful or in which an appropriate legislative, policy and institutional framework has not been established.
- Assistance should complement capital assistance provided by other aid agencies. One of the strengths of the technical assistance provided by the EC is that it can be used to complement financial and capital assistance from other aid agencies. The proposed pension reform project is an example, with the World Bank providing capital financing for

¹ One possibility would be to appoint sector field managers, who could be consultants on renewable contracts, with responsibility for overall sector programme management on behalf of the EC. They would need to be individually appointed and assigned clear responsibility and authority with the aim of ensuring consistent management support over the long-term.

equipment and infrastructure requirements and the EC providing complementary technical assistance.

- Technical assistance should be co-ordinated with other EC assistance. Without a comprehensive approach, EC assistance is less effective than it might otherwise be. For example, in agriculture there is scope for achieving better linkage between the design of Tacis-provided technical assistance and the food security/budgetary support operation funded by DG Development.

Application of Selection Criteria

6.14 In its preparation of the new multi-year programme for EC assistance, it is recommended that the above criteria are used in the selection of the sectors for future co-operation. Box 6.1 summarises how EC activities have scored against each of these four criteria over the past 5 years. The sectors have been classified according to the areas of co-operation listed in Annex II of the draft EC Regulation for 2000-06.

Box 6.1: Analysis of Sectoral Focus for Future Programming Rounds				
Areas of Co-operation EC Sector/Sub-sector	Conducive institutional framework?¹	EC involved in effective policy relationship?²	Other aid agencies active in the sector?³	Complementary to other EC (non-Tacis) budget lines?⁴
Promotion of Democracy/Rule of Law				
Government reform	Yes	No	Yes	Yes ⁵
General legislative and policy reform	Yes	Yes	Yes	Yes ⁵
Support for civil society	N/A	No	Yes	No
Support to the Private Sector/Assistance for Economic Development				
SMEs	Yes	No	Yes	No
Privatisation/ large scale enterprises	Yes	Yes	Yes	No
Support for favourable business envir.	Yes	No	Yes	No
Support in Addressing Social Consequences of Transition				
Health	Not yet	No	Yes	Yes ⁵
Education	Not yet	No	Yes	Yes ⁵
Social protection/social assistance	Yes	No	Yes	Yes ⁵
Development of Infrastructure Networks				
Energy	No	Yes (some)	Yes	No
Transport	Yes	Yes	Yes	No
Communications	No	No	No	No
Promotion of Environmental Protection	Yes	Yes	Yes	No
Development of Rural Economy				
Agriculture	Yes	No	Yes	Yes
Notes:				
1. Sectors were considered to have a supportive framework if: (i) there existed a relevant public sector institution(s) to oversee policy and the legal/regulatory framework; <u>and</u> (ii) the relevant institution(s) had received institutional support under the Enhanced Structural Adjustment Facility or a Structural Adjustment Credit.				
2. Had EC activities assisted in the development of policy, or of the legislative and regulatory framework over a period of time (i.e. longer assistance than from a single SPP)? The effectiveness of the EC's track record in the sector were also considered as part of this component.				
3. Were other aid agencies providing capital assistance and/or support to the development of an appropriate legislative and policy framework in the sector?				
4. Did activities supported by the EC actually or potentially complement other non-Tacis EC activities?				
5. Complementary to assistance provided under Food Security/Budget Support.				

6.15 The majority of sectors had an appropriate or conducive framework for implementing institutional reforms. These sectors included agriculture, privatisation, enterprise restructuring and SMEs, environment, and social protection. Sectors which were not considered to have a supportive framework included energy (no appropriate institution responsible for policy setting/regulatory framework), health and education (no institutional support yet provided; such support is planned to

begin within two years) and communications (no institutional support provided). Although there is as yet no appropriate institution responsible for policy setting/regulatory framework in transport, the policy environment, unlike in energy, is not hostile to reform.

6.16 Tacis support had not focused sufficiently on the development of legislative, policy and institutional frameworks. Energy and trade were the exceptions, with policy support also given to the privatisation programme. However, in the energy sector, only a proportion of assistance was working towards institutional reform. Although the pension support project in the 1998/99 AP qualifies as institutional development, the technical assistance has not yet begun, making it impossible to recommend broadening of the Tacis involvement in the sector. Effective legislative, policy and institutional support has not yet been provided to the development of civil society.

6.17 Most of the sectors receiving support from Tacis were also receiving assistance from other aid agencies. However, the potential that this offered for Tacis technical assistance to complement the capital and financial assistance from other sources was not realised due to poor co-ordination and the tendency for Tacis not to be sufficiently engaged in supporting primary legislative, policy and institutional reforms. Similarly, Tacis assistance in a number of sectors (agriculture, social sectors) could have been more effectively linked to other EC assistance, particularly the food security/budgetary support programme.

Proposed Sector Focus for Future EC Co-operation

6.18 Based on this analysis, the following sectors would appear to best meet the criteria for support under the next IP:

- Promotion of democracy and rule of law, focusing particularly on public sector reform as part of a multi-donor programme and support for legislative reforms. The implementation of necessary legislative and policy reforms, addressing corruption and reducing intrusive government bureaucracy would also assist in building a favourable business environment.
- Agriculture and development of the rural economy, focusing on supporting the development and implementation of appropriate legislative, policy and institutional frameworks, the development of markets, and improvements in rural infrastructure, particularly in war-affected areas.
- Transport, in which the on-going Traceca assistance should be backed up by assistance in developing appropriate national legislative, policy and institutional frameworks.

6.19 The new Regulation gives a greater emphasis on EC support for strengthening civil society. In Azerbaijan, previous EC assistance in this area has been quite limited and the political environment equivocal. The EC could consider providing financing to intermediary institutions, such as the NGO resource centres currently supported by USAID and UNDP. This would help to facilitate a co-ordinated multi-donor approach while also increasing the EC's profile in this important area.

6.20 Other sectors which met some of the criteria and which could be considered for future support include:

- social sectors, including health, education and social protection, possibly as part of a multi-donor programme of support for structural reform;
- environmental protection, building on and developing the existing multi-donor initiatives and complementing the existing EC support to regional initiatives; and
- support for the privatisation programme, once there was clear evidence of the GoA's commitment to proceeding with the large-scale privatisation programme.

6.21 Sectors in which Tacis assistance has in the past proved less effective and for which the EC should reconsider its involvement include:

- development of infrastructure networks, except for transport where a successful regional programme is being implemented; and

- SME development where existing support for advisory services has had limited impact in the absence of fundamental reform of the regulatory environment.

Sequencing of Assistance

6.22 The EC should have a strong comparative advantage in providing technical assistance for institutional reform, including policy development, reform of public sector institutions and the establishment of an appropriate legal and regulatory framework. The primary emphasis in the EC's programme should be on building appropriate legislative, policy and institutional frameworks (Stage A activities in Box 3.5) before assisting with capacity building (Stage B activities) or supporting the implementation of the programmes within the reformed institutional structure (Stage C activities). The findings of this Evaluation indicate that, by improving and better targeting the management of its programme, the EC should be able to play a much more effective role in future.

ANNEX A

LIST OF DOCUMENTS CONSULTED

Tacis Indicative Programmes and Action Programme

1992 Action Programme for Azerbaijan, 1992
1993-95 Indicative Programme for Azerbaijan, 1993
1993-94 Action Programme for Azerbaijan
1995 Action Programme for Azerbaijan, 1995
Indicative Programme Strategy Paper 1996-99
1996-99 Indicative Programme for Azerbaijan, 1995
1996/97 Action Programme, with annexes, for Azerbaijan, 1996
1998/99 Action Programme for Azerbaijan, 1998
Contract Information Budget 1998, May 1998, Azerbaijan 1998-99
European Commission, 1994 Technical Assistance Programme – Inter-State Programme
Tacis Inter-State Programme 1995 Draft Strategy Paper
Update Report on Interstate Projects from 1992-96
Inter-State Programme 1997
Inter-State Programme 1998
Tacis 1998 Inter-State Action Programme
Tacis Programme 1999 Inter-State Action Programme, Feb 1999
European Community Technical Assistance Programme: Exceptional Assistance to Azerbaijan, Tacis 1998
Rehabilitation of the Infrastructure in the Region of Fizuli
Rehabilitation of the Infrastructure in the Region of Agdam

Other EC Documents Relating to Azerbaijan

Azerbaijan - Annual Report 1996
First EU-Azerbaijan Co-operation Council, Luxembourg, Oct 1999 – Annotated Draft Agenda
Guidelines for Administrative Reporting on Projects Financed from the European Union Programme of Technical Assistance to the Commonwealth of Independent States, January 1994
Guide to Tacis Small Project Programmes and Other Support Structures
Inogate: Statement by Hans van den Broek Member of the European Commission at the Inogate Summit Kiev, 22 July 1999
Proposal for an ACP/ALA/MEd Monitoring System, 1999
Questions and Answers on EU-Azerbaijan PCA, 1999
Tacis Framework of the Programme
Tacis Programming and Funding
Tacis 1998: Small Projects Programmes: Financing Proposal
The European Union and Azerbaijan, 1999
The European Union and Azerbaijan - Partnership and Co-operation Agreement (PCA), 1996

Terms of Reference – Tacis Projects

Expertise to the TACIS Co-ordination Units in Georgia and Azerbaijan
Support to the Supervising Authority for the Energy Sector and the Rehabilitation of Oil Contaminated Land (AP98/99)
Assistance to the Restructuring of the Electricity Sector (AP98/99)

Feasibility Study for Improvement of Safety in Gas Transport Management Systems (AP 98/99)
 Reorganisation of the Transport Sector Administration in Azerbaijan (AP 98/99)
 Large Enterprise Privatisation (AP98/99)
 Development of SME Sector Programme in Azerbaijan (AP 98/99)
 Support to a Training Centre for the Commercial Banking Sector (AP 98/99)
 Assistance to the Restructuring of the Electricity Sector (98/99)
 Support to Rural Banking (AP 98/99)
 Social Protection and Pension Reform in Azerbaijan (AP98/99)
 Monitoring Rehabilitation Action in Azerbaijan (AP96/97)
 Rehabilitation of the Energy Distribution Systems in the Region of Baku and Sumgait (AP 96/97)
 Establishment of an Energy Saving Centre and Management Training Centre for the Energy Sector of the Republic of Azerbaijan (AP 96/97)
 Support for the Structural Reform of the Fuel and Energy Sector of the Republic of Azerbaijan (AP 96/97)
 Establishment of Telecommunications Training Centre in Baku and Establishment of a Detailed Integrated Plan for Transition from Analogue to Digital Communications (AP 96/97)
 Regional Pilot Agri-Business Support Units (AP 96/97)
 Strengthening the Audit Capacity of the Azeri Audit Chamber of Auditors and Preparing Future Insolvency Practitioners (AP95)
 Energy Legislation, taxation and finance assistance to the energy sector of Azerbaijan (AP95)
 Technical Assistance to the KOSIA/SMEDA Small and Medium Enterprise Development Agency (AP95)
 Support to the Reform and Development of the Employment Service (AP95)
 Caspian Environment Programme (IS 95)

Tacis Evaluation Reports

City Twinning Programme in the Newly Independent States and Mongolia Evaluation Report, July 1998
 Evaluation of Activities in the Field of Management Training in the CIS: Final Report, (Tacis-ETF)
 Evaluation of Phare and Tacis co-financing programmes with EBRD – Abstract
 Evaluation of the Food Production, Processing and Distribution Sector in the Russian Federation
 Evaluation of TACIS Country Programme in Russian Federation, draft May 1999
 Evaluation of the TACIS Enterprise Restructuring Programme in the Russian Federation, April 1999
 Evaluation of the TACIS Policy Advice Programme, Final Report June 1999
 Evaluation of the Technical Assistance to the 10 Tacis Co-ordination Units – Final Report (Second Version), March 1999 – Resources and Logistics
 Final Report Evaluation of the Phare and Tacis Democracy Programmes, Nov97
 Mid-Term Evaluation of Tacis Activities in Georgia, Evaluation Report, Jan 1998
 Tacis Interim Evaluation, Synthesis Report
 Tacis Interstate TRACECA Programme – Executive Summary, Jun 1998
 Tacis Public Administration Reform Programmes in Uzbekistan and Kazakhstan – Executive Summary, Oct 1998
 Tacis Tempus Programme – Executive Summary
 Tempus Tacis Programme Evaluation Report, February 1998
 The Phare and Tacis Democracy Programme 1992-1997 – Summary
 Ukraine - EC Country Programme – Executive Summary, Jul 1998

Other Reports and Documents – Non-EC

Azerbaijan Country Assistance Strategy: Upstream Review Paper, 1998 (World Bank)
 Azerbaijan-Public Sector Reform Adjustment Credit – PID
 Azerbaijan Republic – Recent Economic Developments, Aug 1998 (IMF Staff Report 98/83)
 Azerbaijan-Second Institution Building Technical Assistance (IBTA2) – PID
 Building Civil Society in Azerbaijan: Overview and Needs Assessment Survey of the Azeri Local NGO Sector, 1999 (Tina M. Nelson, ISAR Azerbaijan)
 Dealing with Azerbaijan's Oil Boom, Sep 1998 (Rosenberg C.B and Saavalainen T.O., Finance and Development)
 Economic Trends, Quarterly Issue, Azerbaijan, April-June 1999 (GoA Ministry of Economy and Tacis)
 Enhanced Structural Adjustment Facility and Extended Fund Facility – Policy Framework Paper 1997-2000, Dec 1997 (IMF and GoA)

Enhanced Structural Adjustment Facility – Policy Framework Paper, 1999-2001, Jan 1999 (IMF and GoA)
Report of the Donor Government Seminar “From Humanitarian Assistance to Development: A Search for More Durable Solutions, May 1999 (GoA, United Nations)
Third Sector News – Information Bulletin No 19, Sep 1999 (ISAR, Azerbaijan)
UNDP in Azerbaijan: Annual Report, 1998 (UNDP)

ANNEX B

LIST OF PEOPLE MET

European Commission

DG1A, Common Foreign and Security Policy and External Service, Principal Administrator,
Azerbaijan Country Desk Officer (Robin Liddel)
DG1A, Common Foreign and Security Policy and External Service, (David Tirr)
Food Security Programme in Azerbaijan, Technical Assistant (Khadidja Kadri)
SCR, Direction A – Unit 3 Tacis, Task Manager Agriculture (Albert Russell)
SCR, Direction A – Unit 3 Tacis, Task Manager Transport (Donata Maria Maccelli)
SCR, Evaluation Unit, Head (Sean Doyle)
SCR, Evaluation Unit, Principal Administrator (Martyn Pennington)

EU Member States

Ambassador of France (Jean-Pierre Guinhut)
Ambassador of Italy (Allessandro Fallavollita)
Ambassador of Germany (Christian A. Siebeck)
Ambassador of Greece (Georgeos Zois)
Ambassador of United Kingdom (Roger Thomas)

IFIs and Donor Agencies

European Bank for Reconstruction and Development, Resident Mission, Senior Banker, Head of
Office (Murat Yildiran)
UNDP, Resident Representative (Ercan Murat)
World Bank, Azerbaijan Resident Mission, Resident Representative (Tevfik M. Yaprak)
World Bank Pension Reform Mission to Azerbaijan/UK Know How Fund (James Stone)
World Bank Pension Reform Mission to Azerbaijan/Scanteam International as (Erik Whist)

Officials of State and Government Bodies

Azerigas International, President (Nazim G. Samed-zadeh)
Azerigas, Department of Foreign Economic Relations, Head (Azer A. Bayramov)
Azerigas, Project Implementation Unit, Azerbaijan Gas Rehabilitation Project, General Director
(Elkhan Z. Mamedov)
Cabinet of Ministers, Department of Foreign Investment and Technical Assistance, Deputy Head
of Division (Dr. Nail S. Fataliev)
Chamber of Auditors of Azerbaijan Republic, Chairman (Vahid T. Novruzov)
Energy Saving Centre of Azerbaijan Republic (Dr. Rauf R. Sadykhov)
Institute of Energetics and Energy Design, Director (Kerim N. Ramazanov)
Ministry of Agriculture, Minister (Irsad Nadir oglu Aliyev)
Ministry of Communications, Department of Telecommunications, Head (Nazim Jafarov)
Ministry of Economy, Fuel and Energy Department, Head (Hussein Gubadov)
Ministry of Finance, Deputy General Director, State Central Treasury (Mardan A. Mardanov)
Ministry of Labour and Social Protection of Population, First Deputy Minister (Ilgar Rahimov)
Ministry of Labour and Social Protection of Population, Head of International Co-operation
Department (Sevil Sattarzade)
Office of the President, Department of Legislation and Legal Expertise, Director (Shahin M.
Aliyev)

State Committee on Antimonopoly Policy and Support for Entrepreneurship, Chairman (Ragib Quliyev)
State Oil Company of Azerbaijan Republic, Deputy General Manager, Foreign Investment (Vitaly V. Begliarbekov)
State Property Committee, Investment and Tender Department, Head (Rauf A. Suleymanov)
Sumgait City, Mayor (Shakir Z. Abushov)
Tacis Co-ordination Unit, Executive Director (Dr. Jahangir A. Kasimov)
Tacis Co-ordination Unit, Deputy Director, Expert Energy Sector (Jahangir Efendiev)
Tacis Co-ordination Unit, Expert Construction and Environment Sector (Isabella Gadjieva)
Tacis Co-ordination Unit, Expert Transport and Telecommunications Sector (Mahir Kazimov)
Tacis Co-ordination Unit, Database Manager/Interpreter (Gulya Najafova)

Business Sector

Azerbaijan Dairy Corporation, Chairman (Ilham Rzaev)
Azerbaijan Entrepreneurs Association, President (Dr. Alekper Mammadov)
Azerbaijan Entrepreneurs Association, Deputy Executive President (Gyulshan Rzayeva)
Kosia-Smeda, Director, (Elchin R. Akhmedov)
Titan Group, Managing Director (Ragib Mamedov)

Civil Society

Initiative for Social Action and Renewal in Eurasia, Director (Kim Perlow)
Initiative for Social Action and Renewal in Eurasia, (Elchin Sardanov)
NGO, Azerbaijan Children's Fund (Flora Salimova)
NGO, Azerbaijan Guiders Association (Firangiz Gamidova)
NGO, Azerbaijan Initiative Group "Enthusiast" (Farakh Burjani)
NGO, Azerbaijan Initiative Group "NUR" (Metanet Kazakhmova)
NGO, Azerbaijan Initiative Group "NUR" (Rimma Nasirova)
NGO, Azerbaijan Lawyers Association (Anagi Hajiyev)
NGO, Azerbaijan Ornithological Association (Elchin Sultanov)
NGO, Azerbaijan Youth Union (Yalchin Jabbarov)
NGO, Azerbaijan: 21st Century, Ecology Organisation (Inada Kuliyeva)
NGO, Ecores (Vafador Ismaylov)
UNDP, NGO Resource and Training Centre, Chief Technical Adviser (Lutful Kabir)

Parliament

Mineral Resources, Energy and Ecology Commission, Chairman (Mrs. Asia Manafova)
Mineral Resources, Energy and Ecology Commission, Adviser, (Shamir Kusenov)

TACIS Consultants and Project Staff

Azerbaijan Economic Trends, Project Manager (Dr. Lâle Wiesner)
Bank Training Centre, Team Leader (Georg Radobersky)
Bank Training Centre, Expert, (Dr. J. Paul McDonald)
Bank Training Centre, Expert (Roy Perriman)
Caspian Environment Programme, Project Manager (Stuart Gunn)
EBRD Bangkok Facility, SME Credit Line/Bank Twinning, Expert (Michel Grocholski)
EBRD Bangkok Facility, SME Credit Line/Bank Twinning (Patrick Bergere)
EBRD Bangkok Facility, SME Credit Line/Bank Twinning (Philippe Brousse)
Energy Distribution System, National Expert (Mehman Abasov)
Establishment of an Energy Saving Centre and Management Training Centre for the Energy Sector, Project Director (Massimo Pautrier)
Exceptional Assistance Programme, Programme Director (Celal G. Alpman)
Monitoring Team Caucasus, Central Asia and Mongolia, Team Leader (Hennie Maters)
Monitoring Team Caucasus, Central Asia and Mongolia, Deputy Team Leader (Jan de Voogd)
Monitoring Team Caucasus, Central Asia and Mongolia, Local Representative (Bahtiyar Kerimov)
Regional Pilot Agro-Business Support Units, Team Leader (Paul Strong)
SME Development in Azerbaijan, Team Leader/Project Manager (Stuart Vernon)

Support to Rural Banking, Team Leader (Bernard Wendel)
Support to Rural Banking, Deputy Team Leader (Garth Bedford)
Support to Supervisory Authority for Fuel and Energy, National Expert (Nariman Ramazanov)
Tacis Co-ordination Unit, Team Leader (Christian le Blanc)
Tacis Co-ordination Unit, Project Manager (Irene Lucius)
TRACECA, Co-ordinator – Caucasus (Marc Graille)
WTO Accession, Project Co-ordinator (Aliyeva Sevindj)

ANNEX C

LIST OF TACIS PROJECTS IN AZERBAIJAN

Action Programme	Areas of Co-operation	Tacis Sector	Project Name	Amount (€'000)
AP 98/99 € 16.0 million (Nov '98) SPPs (Oct'98)	Development of Infrastructure Networks	<i>Energy</i>	Support Ministry of Fuel-Energy and rehabilitation oil contaminated land	1,600
		<i>Energy</i>	Restructuring of the electricity sector	1,000
		<i>Energy</i>	Assistance to modernisation of gas transmission network	1,000
		<i>Transport</i>	Reorganisation of transport sector administration	2,400
	Support to the Private Sector and Assistance for Economic Development	<i>Enterprise Restructuring and Dev.</i>	Regulation of post-privatisation joint- stocks companies	1,000
		<i>Enterprise Restructuring and Dev.</i>	Development of SME	1,500
		<i>Enterprise Restructuring and Dev.</i>	Support to the banking sector	1,500
	Development of the Rural Economy	<i>SPPs</i>	Enterprise support	200
		<i>Agriculture</i>	Establishment of a rural credit institutions	1,000
	Support in Addressing the Social Consequences of Transition	<i>Human Resources Development</i>	Assistance to pension system development and labour protection	1,200
<i>Facilities</i>		Education and Training (Tempus)	1,000	
Promotion of Democracy and the Rule of Law	<i>Facilities</i>	Civil Society	400	
	<i>Human Resources Development</i>	Establishment of a Policy and Legal Advice Centre	1,000	
AP 96/97 € 16.0 million (Mar '97) Facilities (Apr'97)	Development of Infrastructure Networks	<i>SPPs</i>	International standards/commitments	500
		<i>SPPs</i>	Policy Advice Programme	700
		<i>Infrastructure</i>	Rehabilitation of Fizuli district	3,000
		<i>Energy</i>	Rehab. energy distribution system Baku and Sumgait	1,900
		<i>Energy</i>	Establishment Energy Saving and Management Training Centre	1,900
		<i>Energy</i>	Support structural reform of the Fuel and Energy Ministry	1,000
	Support to the Private Sector and Assistance for Economic Development	<i>Infrastructure</i>	Restructuring of the telecommunication sector	1,000
		<i>Enterprise Restructuring and Dev.</i>	Continuation of privatisation projects	400
	Development of the Rural Economy	<i>SPPs</i>	Enterprise support	680
		<i>Agriculture</i>	Regional agro-support units	1,300
Support in Addressing the Social Consequences of Transition	<i>SPPs</i>	Education and Training (Tempus)	1,000	
	<i>SPPs</i>	Civil Society	500	
Promotion of Democracy and the Rule of Law	<i>SPPs</i>	International standards/commitments	1,850	
	<i>SPPs</i>	Policy Advice Programme	1,000	
			Reserve	500

Action Programme	Areas of Co-operation	Tacis Sector	Project Name	Amount (€'000)
AP 95 € 6.0 million	Development of Infrastructure Networks	<i>Energy</i>	Underground Gas Storage Feasibility Study	1,500
		<i>Energy</i>	Legislation, taxation and finance assistance	1,000
	Support to the Private Sector and Assistance for Economic Development	<i>Enterprise Restructuring and Dev.</i>	Strengthening Audit Centre	1,300
		<i>Enterprise Restructuring and Dev.</i>	Strengthening support services to SME sector	500
	Support in Addressing the Social Consequences of Transition	<i>Human Resources Development</i>	Reform and Development of the Employment Service	1,300
			Reserve	400
AP 93-94 € 7.3 million	Development of Infrastructure Networks	<i>Energy</i>	Support to the oil equipment manufacturing and service industry	2,000
		<i>Energy</i>	Improving Customer Service Departments, Gas and Electricity Utilities	1,600
	Support to the Private Sector and Assistance for Economic Development	<i>Enterprise Restructuring and Dev.</i>	Management Advice and Service Facility for large enterprises	1,200
		<i>Enterprise Restructuring and Dev.</i>	Tutoring programme for SMEs	700
	Support in Addressing the Social Consequences of Transition	<i>Human Resources Development</i>	Strengthening management training capabilities	1,300
			Support to employment services	500
			Reserve	700
AP 92 € 12.5 million	Support to the Private Sector and Assistance for Economic Development	<i>Enterprise Restructuring and Dev.</i>	Privatisation	1,500
		<i>Enterprise Restructuring and Dev.</i>	SME development - creation of SMEDA	600
		<i>Enterprise Restructuring and Dev.</i>	Financial services	600
	Support in Addressing the Social Consequences of Transition	<i>Human Resources Development</i>	Commission for reform of public administration	500
		<i>Human Resources Development</i>	Institute for Public Administration	2,500
Development of the Rural Economy	<i>Agriculture</i>	Privatisation of the food distribution sector	1,500	
	<i>Agriculture</i>	Assistance to private family farms/associations	900	
Promotion of Democracy and the Rule of Law	<i>SPPs</i>	Support to various GoA entities on agriculture, energy, transport and telecommunications sectors	4,400	
AP Total Funding				58,530

Source: SCR, CU Database

Inter-state Programme

Since 1992 Azerbaijan has also received assistance under the Tacis Inter-State Programme. The main Inter-State projects for the period 1996-1999, relevant to Azerbaijan are shown below.

Inter-State Programme	Areas of Co-operation	Tacis Sector	Project Name	Amount (€'000)	
IS 99	Development of Infrastructure Networks	<i>Energy</i>	INOGATE (<i>break-down of activities not available</i>)	10,000	
		<i>Transport</i>	Inter-Gov. Joint Commission, implementation Multi-lateral Agreement	1,000	
		<i>Transport</i>	Caucasian Road Sector	1,000	
IS 98 (Oct'98)	Promotion of Environmental Protection	<i>Environment</i>	Mtkvari/Kura river Azerbaijan, Georgia	N/A.	
		<i>Environment</i>	Environmental Action Programme (EAP)	3,000	
IS 98 (Oct'98)	Democracy and Rule of Law	<i>Human Resources Development</i>	Justice and home affairs actions in NIS	3,500	
		<i>Human Resources Development</i>	Justice and home affairs actions in NIS	3,500	
IS 98 (Oct'98)	Development of Infrastructure Networks	<i>Energy</i>	Engineering studies oil-gas transportation across Caspian sea	1,000	
		<i>Energy</i>	Hydrocarbon Potential Assessment	2,000	
		<i>Energy</i>	Priority investment oil, gas infrastructures	2,500	
		<i>Energy</i>	Institutional Support of Regional Co-operation	1,000	
		<i>Transport</i>	Inter-Gov. Joint Commission, implementation Multi-lateral Agreement	1,100	
		<i>Transport</i>	International road transport transit facilitation	3,000	
		<i>Transport</i>	Traffic forecasting, Caspian sea shipping line	2,000	
		<i>Transport</i>	Rail Tank Wagon Cleaning Boilers, Baku	500	
		<i>Transport</i>	TRACECA Co-ordination Team	900	
		<i>Transport</i>	Southern Ring Air Route Phase II	2,000	
IS 98 (Oct'98)	Environmental Protection	<i>Environment</i>	Joint Environmental Programme (JEEP)	5,000	
	Democracy and the Rule of Law	<i>Human Resources Development</i>	Justice and home affairs actions in NIS	3,000	
IS 97 (Nov'97)	Development of Infrastructure Networks	<i>Energy</i>	Tender documents for Mingechaur power project	150	
		<i>Energy</i>	Audit of Azerenerji	300	
		<i>Energy</i>	Development of commercial accounting system	140	
		<i>Transport</i>	Container Services between Baku and Turkmenbashi	1,300	
		<i>Transport</i>	Restructuring of Azeri and Georgian Railways	500	
		Promotion of Environmental Protection	<i>Environment</i>	Regional Seas Programme: Caspian Sea	3,000
			<i>Environment</i>	Raising Public Awareness & Environmental Media (II)	2,500
<i>Environment</i>	Information system for agro-environmental monitoring		2,500		

Inter-State Programme	Areas of Co-operation	Tacis Sector	Project Name	Amount (€'000)
	Democracy and the Rule of Law	<i>Human Resources Development</i>	Justice and home affairs actions in NIS	3,000
IS 96 (Feb'97)	Development of Infrastructure Networks	<i>Energy</i>	Rehabilitation of crude oil and oil products transportation networks	1,800
		<i>Energy</i>	Rehab. of existing gas transmission networks	3,000
		<i>Energy</i>	Strengthening regional co-operation	2,000
		<i>Energy</i>	INOGATE support group	1,500
		<i>Transport</i>	Rehabilitation and reconstruction of the Red Bridge	250
		<i>Transport</i>	TRACECA Co-ordination Team	900
	Promotion of Environmental Protection	<i>Environment</i>	Environmental Action Programme (EAP)	6,500
		<i>Environment</i>	Inland Seas Programme - Caspian Sea	3,000
Development of the Rural Economy	<i>Agriculture</i>	Regional Agricultural Reform Project- Top-up funding RARP I-II	1,500	
Democracy and the Rule of Law	<i>Human Resources Development</i>	Justice and home affairs - Crime prevention study	500	

Source: SCR, CU Database

ANNEX D

RELEVANCE OF TACIS STRATEGY TO AZERBAIJAN'S REFORM PROGRAMME

Action Programme	Tacis Sector	Project Name	Related to Priority Areas (Y/N)	Comment	Methodology/ Stage of Reforms (A, B, C, 0)	Comment
AP 98/99	<i>Agriculture</i>	Establishment of a rural credit institutions	N	Not included in key GoA reform programme	B	Secondary non-policy reform
	<i>Energy</i>	Support Ministry of Fuel-Energy and rehabilitation of oil contaminated land	Y	Relates to rationalising use of energy	0	Ministry did not exist at time of project preparation
	<i>Energy</i>	Restructuring of the electricity sector	Y	Relates to rationalising use of energy, metering	A	Primary reform - structural reform
	<i>Energy</i>	Assistance to modernisation of gas transmission network	N	No policy aspect to project	0	No policy aspect
	<i>Enterprise Restructuring and Dev.</i>	Large enterprise privatisation	Y	Relates to privatisation programme	A	Primary reform - structural reform
	<i>Enterprise Restructuring and Dev.</i>	Development of SME	Y	GoA has separate policy on development of SMEs Project seeks to improve skills of staff, including banking supervision	B	Secondary non-structural reform
	<i>Enterprise Restructuring and Dev.</i>	Support to the banking sector	Y		B	Secondary reform - training
	<i>Human Resources Development</i>	Assistance to pension system development and labour protection	Y	Explicit GoA policy reform area	A	Primary reform - structural reform
	<i>Human Resources Development</i>	Establishment of a Policy and Legal Advice Centre	Y	Relates to overall GoA reform programme, including legal framework	A	Primary reform - structural reform
<i>Transport</i>	Reorganisation of transport sector administration	N	Transport not a priority sector	A	Primary reform - structural reform	
AP 96/97	<i>Energy</i>	Rehab. energy distribution system Baku and Sumgait	N	No policy aspect to project	0	No policy aspect

Action Programme	Tacis Sector	Project Name	Related to Priority Areas (Y/N)	Comment	Methodology/ Stage of Reforms (A, B, C, 0)	Comment
	<i>Energy</i>	Establishment Energy Saving and Management Training Centre	N	Not explicit GoA policy reform area	B	Secondary non-structural reform
	<i>Energy Enterprise Restructuring and Dev.</i>	Support structural reform of the Fuel and Energy Ministry	Y	Relates to rationalising use of energy	0	Ministry did not exist at time of project preparation
	<i>Enterprise Restructuring and Dev.</i>	Continuation of privatisation projects	Y	Relates to privatisation programme	A	Primary reform - structural reform
	<i>Enterprise Restructuring and Dev.</i>	Regional agro-support units	Y	Relates to development of private sector agriculture	B	Secondary non-policy reform, training
	<i>Infrastructure</i>	Rehabilitation of Fizuli district	Y	Explicit GoA policy reform area	0	No policy aspect
	<i>Infrastructure</i>	Restructuring of the telecommunication sector	N	Not a priority sector	B	Secondary non-policy reform
AP 95	<i>Energy</i>	Underground Gas Storage Feasibility Study	N	No policy aspect to project	0	No policy aspect
	<i>Energy</i>	Legislation, taxation and finance assistance	Y	Relates to overall GoA reform programme, including legal framework	A	Primary reform - structural reform
	<i>Enterprise Restructuring and Dev.</i>	Strengthening Audit Centre	N	Not a priority sector	B	Secondary non-policy reform, training
	<i>Enterprise Restructuring and Dev.</i>	Strengthening support services to SME sector	Y	GoA has separate policy on development of SMEs	B	Secondary non-structural reform
	<i>Human Resources Development</i>	Reform and Development of the Employment Service	N	Not a priority sector	A	Primary reform - structural reform