

PROJECT FICHE

Title	Support to the Ministry of Economic Development		
Indicative Total cost	€ 3,000,000 <i>EC contribution: € 3,000,000</i>		
Aid Method	Project approach – <i>centralised</i> management		
DAC-code	15140	Sector	Support to institutional, legal and administrative reforms

1. RATIONALE

1.1. Strategic framework

According to the National Indicative Program 2004-2006 (NIP), the EU shall provide technical assistance to the Republic of Azerbaijan in two areas of cooperation: Support for Institutional, Legal and Administrative Reform, and Support to the Private Sector and Assistance for Economic Development. Both areas are consistent with the objectives of the State Program on Poverty Reduction and Economic Development (SPPRED) and other national development programs adopted by the GoAz. Key objectives for the EU of the NIP are good governance and strengthening of a market economy.

1.2. Lessons learnt

The Ministry of Economic Development (MED) has played a key role in the economic development of the country and has been cooperating with TACIS in the field of institutional development. A TACIS project, Support to the MED, implemented under AP 2002 has just been completed therefore the experience gained from this project was used for this chapter.

The project findings concluded that the MED requires assistance in:

- restructuring
- capacities for long term planning, including drafting concept papers and/or economic development strategies
- strengthening its services, namely Regional Development Offices
- HRD in general

This completed Tacis project also refers to a low absorption capacity of the Ministry and a lack of commitment to the project due to complete lack of work organization, and its unwieldy and not well-defined institutional structure. It is recognized that the process of establishing a new and modern ministry will take some time.

In this context, it is clear that to lead the process of economic reform, such vast Ministry with large powers should have an appropriate organizational set-up and the human resources to function as a policy-making body of the government which was confirmed by the completed project. After the election in November last year a new Minister was appointed and Mr Babayev has already initiated a major drive in seeking the most optimal institutional structure. The civil

service reform aspects will also need to be addressed so that the human resources development is not left unchanged hindering the ministry's evolution.

Since the Ministry's reorganisation is about to be launched, substantial and well focused TA needs will be required. The commitment of the beneficiary should now be assured with a new Minister in charge. The Ministry, when reorganized, should fulfill its principal duties as a policy-making body to encompass all EU affairs, including the forthcoming ENP.

1.3. Complementary actions

Another Tacis project "Support to Regional Development", whose main partner will be the MED, is under preparation from the AP 2004. The project is expected to be implemented in 2006-2008.

Other Donors

USAID is funding Public Investment Policy and Efficiency Project (PIPE), a technical assistance project that will contribute to the government of Azerbaijan's (GoAz) objective of making better and more efficient use of the country's financial resources. This project will provide a bridge linking the development agendas of line ministries and municipalities with Azerbaijan's national development objectives and resource availability, as defined jointly by the Ministry of Economic Development and the Ministry of Finance.

The Asian Development Bank (ADB) has just launched the project "Capacity Building at the MED" with the total cost USD 600 000. Its purpose is to help the Government build capacity for economic policy analysis and advice at the Centre for Economic Reforms (CER).

There will be no overlapping between the above mentioned projects and the one proposed as the activities are very different and donor coordination and dialogue will be ensured.

1.4. Donor coordination

The Poverty Reduction Strategy Paper (PRSP) is the basis for discussion on areas of cooperation for international donors who base their strategies on this document.

On May 12, 2005 the GoAz signed a Joint Declaration with the WB, IMF, EBRD, ADB and UNDP "On Preparing a Long-Term Poverty Reduction and Sustainable Development Strategy to Achieve Millenium Development Goals (MDGs) in Azerbaijan by 2015". This new strategy will set policy priorities to be pursued in order to meet its poverty reduction and sustainable development targets for the year of 2015 as well as the country's own set of MDGs targets. It will also provide the main focus for donor coordination.

At the same time, the GoAz recognises that donor coordination process needs improved institutional mechanisms. Most likely, the MED will take on a share of this function after the reorganisation process has been approved and implemented.

2. COUNTRY CONTEXT

2.1. Cooperation related policy of beneficiary country

The GOAz treats the EU as its strategic partner and sets the EU integration as its priority. The State Commission for Azerbaijan's Integration with the EU was established by Presidential

Decree in June 2005 and it has been chaired by the Vice Prime Minister with two deputies: Minister of Foreign Affairs and Minister of Economic Development (National Coordinator of the EU Technical Assistance Programmes for Azerbaijan). The GoAz declared its commitment to the ENP process. PCA implementation is ongoing and continues has established a strategic framework for the EU-Azerbaijan cooperation.

2.2. Sector context

The government focuses its activities on promoting business activity and entrepreneurship in order to generate employment and income, increasing exports and the development of local market infrastructure (consulting, training, and information). Consideration needs to be given as to how to best deliver economic development activities in the regions and whether the market reforms can finally take hold there.

Currently, the GoAz has two basic documents identifying priority actions for national development: the State Program for Poverty Reduction and Economic Development (PRSP/SPPRED) and the State Program for Socio-economic Development of the Regions. There are also several sector-based programs supporting development in areas such as tourism, agriculture, education, energy etc.

The MED is the government's body responsible for diversification and regional economic development. The Ministry has established a Secretariat for implementation of the State Programme for Socio-Economic Development of the Regions. In total 10 economic regions have been identified and the Ministry is planning to establish an Economic Development Centre in 8 of these regions. These Centres will report to the Secretariat for the Regional Economic Development Programme at the MED.

Although the MED has sufficient capacity to lead the economic development process in the country, it has faced major problems in its insufficient economic policy-making process. Some of the problems have been identified as follows:

- It has neither the appropriate organisational set-up nor sufficient human resources to function as a policy-making body of the government.
- Employees of different departments have no coherent communication system established, resulting in the lack of information exchange and poor coordination of activities.
- Cooperation, communication and coordination with other ministries are carried out at a very low level causing problems in joint activities.
- MED activities are not sufficiently transparent.
- No sector priorities and policies for the non-oil sector have been identified.
- Regional Development Offices are weak and need strengthening.

The new Minister has recently announced significant changes in the structure of the Ministry and initiated a major drive in seeking a better and more effective institutional structure. It has become clear that the MED needs to change in its strategy (previously lacking), vision, priorities, tasks and structure.

However, the reorganised Ministry will need further TA support in order to become a fully operational body capable to lead the development of the country's economy.

3. DESCRIPTION

3.1. Objectives

- **Wider objective:** to improve the economic development of the Azerbaijan and reduce its dependence on the oil sector and meet challenges in the post-oil development future
- **Specific objective:** to strengthen the MED in its capacity to develop and advance economic policy-making mechanism for the mid-to-longer term development period and establish a new and modern Ministry

3.2. Expected results and main activities

Some expected results could be:

- Implementation within the Ministry of Economic Development of civil service reform through better Management of Human Resources
- Efficiency of operation of the Ministry substantially improved
- The medium term impact of the oil bonanza analysed and a long-term development strategy for the non-oil sector drafted
- Capacity of Regional Offices developed

To address the issues above and achieve its objective the project shall have three components as outlined below:

i) Support to the institutional development of the MED to improve its capacity to develop the country's economy to meet challenges in the post-oil development future

Technical assistance will be provided in restructuring and developing capacities of the MED, including:

- Support in speeding up the civil service reform aspects and introduction of modern HRD function into the MED.
- Support in developing capacities required to ensure most efficient utilisation of the MED in leading and regulating economic reforms in the country
- Support in the implementation of improved organisational structure, taking into account aspects such as economic policy-making, SMEs development, new ENPI etc.

ii) Support to the MED in drafting of long-term development strategy for the non-oil sector

Assistance should be rendered in analyzing the medium term impacts of the oil bonanza and identifying sector priorities and sector policies for non-oil economy in order to efficiently build up activity for the development and promotion of the most prospective spheres for Azerbaijan economy.

iii) Support for the regional development

This project will provide assistance for strengthening of the Regional Offices of the MED, including elaboration of proposals on their most optimal administrative structures as well as forms of economic cooperation with other administrative bodies, taking into account the results and findings of the “Support to Regional Economic Development” project to be implemented under AP 2004.

3.3. Stakeholders

- **The Ministry of Economic Development (MED)** is the central executive body that develops and executes state policy in the social and economic development as well as the international cooperation of the RoAz. MED was established in April 2001 as a result of a merger of five previous Ministries and other government bodies – the Ministry of Economy, the Ministry of Trade, the Ministry of State Property, the State Committee for Antimonopoly Policy and Support for Enterprise, and the Agency for Foreign Investment Promotion. The Ministry retains many of the functions of its predecessors, but with a major shift of overall focus towards boosting private enterprise as the mainspring of the national economy.

The MED is also responsible for economic diversification and regional economic development. Already important first steps have been made with the development of the State Program on Socio-Economic Development of the Regions. The Ministry has meanwhile established a Secretariat for implementation of the State Program for Socio-Economic Development of Regions and 8 Regional Development Centers in the regions.

Other stakeholders of the project are:

- The central government, the Cabinet of Ministers and line ministries, those working closely with the MED.
- Local authorities, municipalities, Regional Offices of the MED.
- The business community in the country, especially small and medium businesses, which will benefit from the optimised structure and activity of the MED for the economic reforms, development of free market and creating favorable conditions for business activities.

Also, any project contributing to the poverty reduction and regional development will provide indirect benefit for all citizens of the country.

The beneficiary of the project shall be the Ministry of Economic Development.

3.4. Risks and assumptions

Assumptions

- Political and economic stability inside Azerbaijan
- Commitment to democratic, and market economy reforms on the part of the GoAz
- Commitment to administrative reforms on the part of the government in general and of the Minister of Economic Development and senior officials in particular

Risks

- Changes to the present on-going reform policy as a result of shifts in the political agenda
- Difficulties may be related to the implementation of new work practices with a view to improving transparency, communication, and coordination between departments
- Economic instability, including in particular, disruption of oil prices

3.5. Conditionalities

- All relevant government entities (ministries, regional offices, etc.) directly benefiting from this project shall be adequately staffed and equipped with IT equipment before the start of the project. The beneficiary should provide sufficient and functional office space for the project team.
- In order to guarantee the expected results, the project should be directly linked to the decisional power of the Ministry.

3.6. Crosscutting issues

The project is of relevance to poverty reduction, good governance and integration into the world economy. In its activity it shall follow gender equality principles.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Centralised management.

4.2. Budget and calendar

The indicative total budget is € 3 million with a one fee based service contract for Technical Assistance and following a Term of Reference that will indicate activities.

It is indicatively foreseen to launch the tender during the first semester 2007.

The contribution of the beneficiary will be in kind: providing office space and/or accommodation and the necessary time of government staff or from staff of other publicly funded institutions involved in the project.

The foreseen indicative duration of the project is 24 months.

4.3. Procurement procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4. Performance monitoring

The project will be monitored according to standard procedures. Quarterly and annual reports will be produced by the contracting party. Objectively verifiable indicators will be agreed upon and included in the direct agreement at the start-up of the project.

4.5. Evaluation and audit

Evaluations and audits will be carried out using standard EuropeAid procedures.

	Logical framework Project no: Support to the Ministry of Economic Development (MED) Project title: Support to the Ministry of Economic Development (MED)	Country: Azerbaijan Project duration: 36 months Prepared on: February 2006
---	---	---

Intervention logic	Objectively verifiable indicators	Sources of verification	Assumptions
Overall objectives: To improve economic development of the RoAZ, reduce its dependence on the oil sector and meet challenges in the post-oil development future	<ul style="list-style-type: none"> Increased contribution to the Azeri GDP of the non-oil sector Acceleration of the economic growth rate in the regions (excluding Baku) 	Economic Indicators produced by the Ministry of Economic Development, the Azerbaijan State Committee for Statistics and other international organisations	No disruptive political instability in the country or in the region /oil price issues /stalling of the reform process
Project purpose: To strengthen the MED in its capacity to develop and advance economic policy-making mechanisms for the mid-to-longer term development period and establish a new and modern Ministry	<ul style="list-style-type: none"> Involvement of the project team in the decision-making process re. long-term policy/strategy Analysis of the problems linked to the policy making process and proposed solutions Recommendations produced by the project Proposed reorganisation of the Ministry 	<ul style="list-style-type: none"> Minutes of relevant meetings Project progress reports Government/MED decisions relating to the proposed reorganisation of the Ministry MED decision relating to the recommendations made by the project Other donors' relevant reports 	<ul style="list-style-type: none"> A significant share of the State Budget is committed to MED's objective for economic development Government is able to attract the necessary investments/funds from the IFIs and the donor community The project team is involved in the decision making process of the Ministry right from start of the implementation
Results: <ul style="list-style-type: none"> Improvement Ministry's capacity and structure The medium term impact of the oil bonanza analysed and a long-term development strategy for the non-oil sector drafted Efficiency of operation of the Ministry substantially improved Implementation within the Ministry of Economic Development of civil service reform through better Management of Human Resources Capacity of Regional Offices developed 	<ul style="list-style-type: none"> New structure is discussed and approved with the Minister Long term strategy for the development of non-oil sector drafted in close cooperation with ministry's staff Preparation of the above strategy will be used as a pilot exercise for creating the process and improve the efficiency of operation of the Ministry Creation of a functional HR department and implementation of past pilot job description for the entire Ministry Involvement of regional office in Ministry's decisional process and policy formulation 	<ul style="list-style-type: none"> Government/MED decisions Formal approval by the MED /Government of the long term strategy for the non-oil sector development Project's progress reports/ other donors' relevant reports Statistics produced by financial institutions / the project 	<ul style="list-style-type: none"> Willingness of MED to effectively implement the activities and efficiently cooperate with the project HR department is created and has adequate staff

Activities:	Specification of inputs	Specification of costs	
<ul style="list-style-type: none"> ➤ Support in speeding up the civil service reform aspects and introduction of modern HRD function into the MED. ➤ Support in developing capacities required to ensure most efficient utilisation of the MED in leading and regulating economic reforms in the country ➤ Support in the implementation of improved organisational structure, taking into account aspects such as economic policy-making, SMEs development, new ENPI etc. ➤ Assistance should be rendered in analyzing the medium term impacts of the oil bonanza and identifying sector priorities and sector policies for non-oil economy in order to efficiently build up activity for the development and promotion of the most prospective spheres for Azerbaijan economy To support the regional structures to be established by the MoED and promote regional dev. through institutional development and capacity building ➤ This project will provide assistance for strengthening of the Regional Offices of the MED, including elaboration of proposals on their most optimal administrative structures as well as forms of economic cooperation with other administrative bodies, taking into account the results and findings of the "Support to Regional Economic Development" project to be implemented under AP 2004. 	<p><i>To be determined in the Terms of Reference</i></p>	<p><i>To be determined in the Terms of Reference</i></p>	<p>Well co-ordination with other donors on-going projects or programmes</p> <p>Availability and receptiveness of MED staff at different levels</p> <p>Willingness of the MED to provide relevant information and implement the project's recommendations</p>

Preconditions:

- All relevant government entities (ministries, regional offices, etc.) directly benefiting from this project shall be adequately staffed and equipped with IT equipment before the start of the project. The beneficiary should provide sufficient and functional office space for the project team.
- In order to guarantee the expected results of the project, its management should be directly linked to the decisional power of the Ministry.