

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR AZERBAIJAN

2010 - 2013

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LIST OF ABBREVIATIONS

ACG	Azeri, Chirag and deep water Gunashli (ACG) offshore fields
ADB	Asian Development Bank
AIC	Azerbaijan Investment Company
ARS	Azerbaijan Road Service
BAS	Business Advisory Services
BEEPS IV	2008/09 Business Environment and Enterprise Performance Survey
BSTDB	Black Sea Trade Development Bank
BTC	Baku-Tbilisi-Ceyhan pipeline
CDM	Clean Development Mechanism
CIB	Comprehensive Institution Building programme
CIS	Commonwealth of Independent States
CPI	Corruption Perception Index
DCFTA	Deep and Comprehensive Free Trade Area
DIF	Direct Investment Facility
DLF	Direct Lending Facility
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ENP	European Neighbourhood Policy
ENP Action Plan	EU-Azerbaijan European Neighbourhood Policy Action Plan
ETC	Early Transition Countries
EU	European Union
Euro or €	Euro, the currency of the member states of the EU participating in the European Monetary Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
ICA	Industry, Commerce and Agribusiness
ICT	Information and Communication Technology
IDA	International Development Association
IDP	Internally Displaced Person
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
KfW	Kreditanstalt für Wiederaufbau
MCCFF	Medium-sized Co-financing Facility
MCIT	Ministry of Communications and Information Technologies
MEI	Municipal and Environmental Infrastructure
MENR	Ministry of Ecology and Natural Resources
MFF	ADB's Multi-tranche Financing Facility
MFI	Microfinance Institution

MIGA	Multilateral Investment Guarantee Agency
MM	Million
MONEYVAL	Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MSEs	Micro and Small-sized Enterprises
MSME	Micro, Small and Medium-sized Enterprises
NBFI	Non-bank Financial Institution
NEAP	National Environmental Action Plan
NIF	Neighbourhood Investment Facility
NPL	Non-performing loan
ODIHR	OSCE Office for Democratic Institutions and Human Rights
OSCE	Organisation for Security and Co-operation
PISA	Programme for International Student Assessment
PPL	Public Procurement Law
RDI	Regional Development Initiative
SDR	Special Drawing Rights
SMEs	Small and Medium-sized Enterprises
SOCAR	State Oil Company of Azerbaijan
SSC	State Securities Committee
TAM	Turn Around Management
TFP	Trade Facilitation Programme
TIM	Telecoms, Informatics and Media
TSA	Targeted Social Assistance
UNCITRAL	United Nations Commission on Trading Law
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
US	United States of America
USAID	United States Agency for International Development
USD or \$	United States Dollars, the currency of the United States of America
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation
YAP	Yeni Azərbaycan Partiyası

EXECUTIVE SUMMARY

Azerbaijan is committed to the principles of multiparty democracy, pluralism and market economics outlined in Article 1 of the Agreement Establishing the Bank. A more consistent application of these principles would enhance pluralism and political accountability, strengthen the rule of law and help overcome the remaining challenges.

President Ilham Aliyev won a second five-year term in office with an overwhelming majority in the presidential election held on 15 October 2008. According to the OSCE Office for Democratic Institutions and Human Rights (ODIHR) the election marked considerable progress towards meeting international standards but did not meet all OSCE commitments.

Azerbaijan registered strong macroeconomic performance over the past three years. Over the past strategy period, the economy grew by an average of 14.8% per year driven by an oil and gas boom that accounted for 47% of GDP in 2009. The non-oil economy benefited from spill-over effects with the construction and service sectors growing respectively by 13.1 and 11.8% on average over the same period. Increased budget revenue allowed the government to pursue an expansive fiscal policy significantly increasing infrastructure expenditure and social spending. This in turn fuelled inflation which reached 20.8% in 2008 but subsequently subsided as the global financial crisis intensified.

Azerbaijan was less affected by the global downturn than other countries. Even so, lower oil prices and weaker external demand caused GDP growth to contract from 25% in 2007 to 10.8% in 2008. Although the financial sector remained relatively unaffected, credit expansion in 2009 declined to 18% from 60% a year earlier and non-performing loans (NPLs) increased. The central bank supported the exchange rate which came under pressure from lower foreign exchange inflows as the drop in exports outstripped the decline in imports. Economic growth picked up in the second half of 2009 as oil prices recovered. It ended the year at an estimated 9.3%. The global crisis exposed the country's vulnerability to energy shocks and underscored the need to expedite economic diversification.

The EU-Azerbaijan European Neighbourhood Policy Action Plan (ENP Action Plan) adopted in 2006 and Azerbaijan's bid to join the World Trade Organisation (WTO) are some of the drivers behind the country's reform agenda. Implementation has been uneven. In February 2009 Azerbaijan became the first country to pass independent validation under the Extractive Industry Transparency Initiative (EITI). Some steps have been taken to improve the business environment as recognised by the World Bank's Doing Business 2009 report which ranked Azerbaijan as the top reformer in 2008. Azerbaijan's strong macroeconomic performance and improved management of its energy resources led Fitch Ratings Ltd. to raise Azerbaijan's credit ratings to investment grade (BBB-) in May 2010. Notwithstanding these important achievements, the business environment remains challenging.

To reduce Azerbaijan's dependence on oil and gas the government has made economic diversification a cornerstone of its development strategy. To achieve this objective, Azerbaijan will need to address the following transition challenges:

- *Improve the business environment.* Azerbaijan successfully attracted large investments into the oil and gas sector by creating a favourable operating

environment for investors. The government needs to recreate this success to attract investments in the non-oil economy. Following the streamlining of business registration, the government should create a level playing field and uphold the rule of law to encourage the entry of new players, promote competition and reduce informal monopolies. To enable companies to operate officially, the government should alleviate administrative burden and reduce arbitrary practices by deepening and expediting ongoing reforms at customs and tax administration.

- *Integrate into the global economy.* While Azerbaijan's relative isolation in certain sectors spared it from the worst of the global turmoil, the long-term development of its non-oil economy will depend on the country's ability to integrate into the global economy. Closer integration will improve productivity and competitiveness. WTO accession would support economic diversification by creating a stable and predictable framework for importers and exporters, resisting protectionist reflexes and signalling a desire to deepen trade in non-oil goods and services.
- *Deepen financial intermediation.* Access to finance remains an obstacle to the development of MSMEs. Although credit has expanded significantly since 2005, financial intermediation is still relatively low. The government should continue to strengthen banking supervision and prudential regulation and encourage consolidation in the banking sector. Privatizing the state-owned bank and attracting large foreign banks would encourage competition and set new standards for the sector. The non-bank financial sector is still embryonic and needs to be further developed.
- *Advance public infrastructure reform.* The government has accelerated investments in power, transport and water supply to improve services. In parallel the government increased tariffs to cost recovery for most utilities in 2007, invested in metering and billing systems and introduced IFRS reporting. To ensure the financial viability of utilities and eventually attract private investment, the authorities should adopt a clear pricing policy that builds on the 2007 tariff adjustments. Public procurement should be strengthened to ensure a more efficient use of public funds. Utilities should be encouraged to operate commercially in a fully transparent and accountable manner.

The Bank will assist Azerbaijan to diversify its economy by drawing among others on the instruments and grant financing available under its ETC initiative. In particular, the Bank will pursue the following operational objectives:

- *Industry, commerce and agribusiness (ICA) sector.* The Bank will continue to contribute to the development of the non-oil sector. The Bank will pursue investment opportunities in all enterprise sectors with a special emphasis on agribusiness given its potential and importance in terms of regional development. The Bank will act as a catalyst to attract much needed foreign investment and know-how. Where appropriate the Bank will seek to co-invest with the state-owned Azerbaijan Investment Company (AIC). The Bank will continue to provide advisory services to companies through its Turn Around Management (TAM) and Business Advisory Services (BAS) programmes. In its projects the Bank will promote corporate governance, transparent ownership and financial disclosure.
- *Financial sector.* The Bank will seek to strengthen financial intermediation to ensure efficient financing of the private sector particularly MSMEs. The Bank will

promote further competition and consolidation as well as foreign investment in the sector. The Bank will assist in the development of new financial instruments such as mortgage financing, leasing and energy efficiency credit lines. The Bank will enhance its support for the development of microfinance particularly in Azerbaijan's regions and promote the expansion of the non-bank financial sector. Alongside its investments the Bank will provide substantial technical assistance for capacity building, credit analysis and risk management.

- *Energy and infrastructure sectors.* The Bank will continue to support Azerbaijan's infrastructure development with a particular focus on power and energy savings. The Bank is ready to consider contributing to the funding of the Nabucco Gas Pipeline Project. Public sector projects will continue to be financed predominantly on a sovereign basis. Where possible, the Bank will examine opportunities to structure creditworthy public sector projects on a non-sovereign basis and support private sector infrastructure investment. The Bank will promote transparent procurement practices in its projects. The Bank will also instil commercial discipline and improve efficiency, financial transparency and corporate governance at its state-owned clients.

The Bank will underpin the aforementioned operational objectives by an ongoing policy dialogue on investment climate issues in close consultation with other IFIs and the business community. The Bank will ensure that all operations in Azerbaijan conform to the Bank's Environmental and Social Policy as well as ILO and national labour standards. In the context of the ETC initiative, the Bank will seek increased donor grant financing to fund project preparation and implementation, advisory support, institution building and legal transition work.

COUNTRY STRATEGY

1. The Bank's Portfolio

1.1 Overview of Bank Activities to Date

As of 30 April 2010 the Bank has signed 114 projects (including 9 TFP transactions) for a cumulative business volume of €1.05 billion and a total project value of €5.6 billion. The current portfolio amounts to €663 million of which 69% has been disbursed and €446 million are operating assets.

The energy sector represents 44% of the Bank's current portfolio and is split almost equally between natural resources and power and energy. The Bank financed 16 natural resources projects for €347 million in aggregate, including several landmark transactions such as BTC, ACG and Shah Deniz. The Bank also financed three power projects for a total of €213 million making Azerenerji, Azerbaijan's state-owned power utility, the Bank's single largest client. The industry, commerce and agribusiness (ICA) sector represents 23% of current portfolio. The Bank financed 21 projects for a total of €167 million including two projects with Garadagh Cement, the Bank's second largest client in Azerbaijan. The financial sector represents 19% of portfolio. The Bank invested €171 million in 67 projects. The infrastructure sector constitutes 14% of the Bank's portfolio. It includes 6 transport projects and one municipal project for a total of €152 million.

The ETC initiative enabled the Bank to significantly step up its operations in Azerbaijan. Since its launch in 2004, the Bank has financed 67 projects for a total of €90 million under the ETC initiative. For a more detailed overview of the Bank's portfolio please refer to Annex 2.

Table 1: Commitments and Net Portfolio as of 30 April 2010

Sector	CUMULATIVE COMMITMENTS (€MM)					CURRENT PORTFOLIO (€MM)		
	No. of Projects	Total Project Cost	EBRD Funding	% of Total EBRD	Disbursed	No. of Projects	Portfolio	% of Total Portfolio
ICA	21	446	167	16%	50	13	154	23%
Agribusiness	6	22	12	1%	12	5	11	2%
Equity Funds	4	18	5	0%	5	1	1	0%
Manufacturing and Services	6	393	143	14%	25	4	139	21%
Property and Tourism	3	10	4	0%	5	1	0	0%
TIM	2	4	3	0%	3	2	3	0%
Financial Institutions	67	283	171	16%	152	59	125	19%
Bank Equity	3	12	9	1%	9	3	9	1%
Bank Lending	35	173	97	9%	78	24	72	11%
Insurance & Financial Services	4	4	4	0%	4	3	2	0%
Small Business Finance	25	93	61	6%	61	29	42	6%
Energy	19	4,663	560	53%	550	5	289	44%
Natural Resources	16	4387	347	33%	371	3	134	20%
Power & Energy	3	276	213	20%	179	2	155	23%
Infrastructure	7	249	152	14%	143	3	95	14%
MEI	1	81	17	2%	18	-	0	0%
Transport	6	168	135	13%	125	3	95	14%
Country Total	114*	5642	1050	100%	894	80	663	100%

* including 9 TFP transactions

1.2 Implementation of Previous Country Strategy, Transition Impact and Lessons Learned

The Bank's 2007 country strategy aimed to (i) support private enterprise, (ii) strengthen financial intermediation and (iii) assist in the rehabilitation of Azerbaijan's infrastructure. During the previous strategy period 28 new projects were signed for a total amount of €17 million and a total project value of €51 million. The average investment size was €7.7 million. Excluding the €20 million loan to Garadagh Cement, the average investment size drops to €3.6 million highlighting the relevance of the ETC initiative for Azerbaijan. The Bank's portfolio increased by 37% to €63 million. Operating assets nearly tripled from €62.6 million to €146 million.

Over the previous strategy period the Bank invested approximately €140 million in 8 projects in the **ICA sector**. Among others, the Bank provided \$15 million to Azer-Yod LLC in December 2008 to rehabilitate a Soviet era iodine extraction plant. The project aims to modernise and expand the plant's production process as well as improve corporate governance and environmental standards. In another noteworthy transaction the Bank extended a €20 million loan to Garadagh Cement (part of the Holcim Group) in September 2009. The loan - which follows an earlier \$10 million equity investment by the Bank - will be used to introduce state-of-the-art dry process cement production technology, significantly reducing energy consumption and CO2 emission. In March 2010 the Bank also signed a \$4 million equity investment with Datacell JSC, a leading wireless internet provider in Azerbaijan which operates under the brand Elcell. This is the Bank's first investment in Azerbaijan's information and communication technology sector. The project will enable the company to expand its broadband internet services in the Absheron peninsula as well as secondary cities in Azerbaijan. The ETC initiative was a critical success factor in the implementation of the Bank's corporate sector objectives. Of the 8 corporate sector projects, 5 projects were financed through ETC instruments for a total of €7.5 million.

The Bank's transition impact in the corporate sector to date is limited. A challenging investment climate in the non-oil sector constrains the number of corporates that meet the Bank's eligibility requirements. The Bank supported corporate governance improvements as well as efficiency and productivity gains among others through the introduction of technological improvements in its investee companies. The Bank also encouraged its investee companies to improve financial disclosure by implementing management information systems and adopting international financial reporting standards (IFRS). Attempts to improve tax transparency in projects financed by the Bank as part of its transition mandate remain thwarted by a challenging business environment which compels companies to operate in the grey economy. The Bank enhanced local companies' management skills and competitiveness through its TAM and BAS programmes. TAM currently works with 12 companies which are active, among others, in food production, textiles, healthcare and retail. Three of these companies were provided with a TAM Crisis Response Programme. During the previous strategy period BAS assisted 201 companies with an aggregate turnover of almost €200 million and over 6000 employees. For a more detailed overview of the Bank's TAM and BAS programmes please refer to Annex 3.

Garadagh Cement was the only corporate project independently evaluated during the previous strategy period. The Bank's engagement with Garadagh Cement demonstrated that portage or quasi portage equity structures can provide the Bank a significant presence in a company from which to conduct policy dialogue (PE09-443).

The Bank remained the main provider of long-term financing and technical assistance to the **financial sector**. The Bank currently works with 9 banks, 6 microfinance institutions (MFIs) and 3 non-bank financial institutions (NBFIs). During the strategy period, the Bank signed 19 projects for a total amount of almost €75 million and an average investment size of €3.9 million. The Bank also provided technical assistance in excess of €4.2 million in the areas of institution building, risk management, credit appraisal, microfinance and mortgage financing. Although Azerbaijan's banking sector passed through the financial turmoil relatively unscathed, some banks faced difficulties to rollover loans in 2009. In the midst of the global liquidity crunch the Bank led a consortium of development banks to provide a financial package to Unibank, one of the leading local private banks, enabling it to improve liquidity and resume lending activities. Other noteworthy transactions include a small equity investment in Millikard, a start-up card processing company, and the Bank's first mortgage financing in Azerbaijan with Bank Respublika.

The Bank had a moderate transition impact in the financial sector so far. Through its equity investments the Bank raised corporate governance standards in local financial institutions. The Bank also improved the risk management, credit appraisal and micro lending skills of its partner institutions. In addition it supported the development of new financial products such as leasing and mortgage financing.

The Bank's experience with Unibank shows that the merger of well-managed banks in difficult and volatile markets can have a strong transition impact (PE07-380). Another lesson learned from the Bank's engagement with MBASK, an insurance company, is not to underestimate the need for post-investment support in light of what the Bank can realistically provide (PEX07-299).

No new public **energy or infrastructure** investment occurred during the past strategy period. Strong appetite from commercial banks prior to the global crisis and more attractive terms from the World Bank and the Asian Development Bank limited the demand for additional financing by the Bank. The Bank provided a \$3.5 million MCFE loan to Azwirt LLC, a local construction company that specialises in road rehabilitation.

The Bank's transition impact in the energy sector was moderate till now. In the natural resources sector the Bank participated in the financing of the construction of the BTC pipeline and the related development of Phase 1 of the Azeri, Chirag and deep water Gunashli (ACG) offshore fields in the Caspian Sea. According to an independent valuation conducted during the strategy period, the project objectives were only partly achieved due to the limited progress on the Regional Development Initiative (RDI) which aimed to support the economic development of the communities living alongside the BTC pipeline. The BTC and AGC projects demonstrate the importance of improving IFI coordination in large natural resources projects to promote sector reform and address macro-economic issues (PE07-369). They also underline the importance for resource rich countries of liberalising key sectors to achieve significant efficiency improvements (PE07-373).

In the power sector the Bank continued to support Azerenerji, the state-owned power utility, to rehabilitate the Azdres Thermal Power Plant. This project aims to increase plant efficiency and reduce Azerenerji's cost structure. In parallel the Bank assisted Azerenerji to sell carbon credits generated by the plant's rehabilitation under the Clean Development Mechanism (CDM) established by the Kyoto Protocol. The project is expected to reduce CO2 emissions by three million tons annually. This

landmark deal involved the development – with the Bank’s assistance – of a new CDM methodology for power-plant rehabilitation which can now be applied worldwide. During the strategy period Azerenerji made noticeable progress in terms of IFRS accounting and environmental reporting. A related technical cooperation project to assist the tariff council to improve the tariff methodology has still not been approved by the cabinet of ministers.

In the infrastructure sector the Bank had a limited transition impact so far. During the strategy period the Bank predominantly focused on monitoring its existing projects. In 2008 the Azerbaijan State Railway Company prepaid in full the Trans-Caucasian Rail Link Project to attract a loan from a French commercial bank.

1.3 Portfolio Performance and Private Sector Ratio

The overall portfolio risk rating is 5.87 compared to 6.14 for the Bank as a whole. The portfolio performed satisfactorily with the exception of one MFI. Following internal fraud by some of its employees, the MFI is under a managed wind-down in agreement with all lenders. As a result impaired assets increased slightly but remain low at 0.12% of total portfolio. All other projects continue to be current in their payments. One project in the ICA sector suffered from capex overruns. Remedial actions which include further equity contributions by the sponsor are currently being considered to bring the project back on track. In the absence of additional sponsor support, the €8.3 million loan outstanding may become impaired. Clients in the financial sector suffered a marked increase in NPLs, highlighting the need to further enhance the credit appraisal and risk management skills of local banks and MFIs.

During the strategy period the percentage of investments in private sector projects increased from 53% to 62% of the Bank’s portfolio reflecting the lack of new investments in public infrastructure during the period as well as the prepayment of the Trans-Caucasian Rail Link Project.

1.4 Mobilisation of Co-financing

To date the Bank has mobilised a total of €4.6 billion in co-financing from sponsors and co-financiers for a mobilisation ratio – calculated as co-financing divided by Bank commitments – of 4.4. In other words for every euro invested by the Bank, the Bank attracted an additional €4.4. However, the bulk of co-financing supported large oil and gas projects. Co-financing in the non-oil sector is still at an early stage with only €490 million raised for a mobilisation ratio of 1.

During the previous strategy period the Bank raised €334 million in co-financing for a mobilisation ratio of 1.5. The Bank and other IFIs remain the main providers of long-term funds in the non-oil sector.

2. Operational Environment

2.1 The General Reform Environment

2.1.1 Political Developments

Since coming to power in October 2003, President Ilham Aliyev steadily consolidated his control. On 15 October 2008 he comfortably secured a second five-year term in office. According to international observers, the presidential election marked considerable progress towards meeting international standards but did not fulfil all OSCE commitments. While the election was peaceful, it lacked robust competition and vibrant political debate. A constitutional referendum on 18 March 2009 removed the limit of two consecutive presidential terms.

The ruling presidential party (Yeni Azərbaycan Partiyası – YAP) retains a dominant position in the legislature and in the political system. The municipal elections held on 23 December 2009 further reinforced the party's stance. The opposition is divided and seems unable to mount a serious challenge. The next parliamentary elections, scheduled for November 2010, are unlikely to significantly change the distribution of power.

The Nagorno-Karabakh conflict remains unresolved. Although Azerbaijan and Armenia continue to negotiate under the auspices of the OSCE Minsk Group (co-chaired by Russia, France and the United States), little progress was achieved towards a final settlement. For a detailed assessment of the political environment please refer to Annex 1.

2.1.2 Social and Labour Conditions

Azerbaijan's population was approximately 9 million in 2010. The annual population growth rate is only 1.12%. Just over half the population (54%) is urban. More than 90% of the population is ethnic Azeri. Other ethnic groups include Dagestani (2.2%), Russian (1.8%), Armenian (1.5%) and others (3.9%).

Azerbaijan ranks 86th out of 182 countries on UNDP's Human Development Index, a composite measure of living standards, life expectancy and education. Living standards improved considerably with the official poverty rate declining from 49% to 11% over the past decade. Geographic disparity also decreased even though Baku still enjoys lower poverty levels than the rest of the country. About two thirds of poverty reduction can be attributed to the oil boom. The remaining third was due to government policies to increase wages and social transfers which reached 63% of the population in 2008. Azerbaijan has gradually increased its social protection spending to 4.8% of its GDP in 2008. The pro-poor distribution of social transfers makes them an important source of livelihood for the poor. About half of the targeted social assistance (TSA) beneficiaries are from the bottom population decile. The TSA has a well-functioning administrative structure with fully automated business processes covering much of the country.

Health care was plagued by deteriorating infrastructure, outdated equipment and a lack of skilled health care providers. Out-of-pocket expenses are significant, rendering health care access and usage difficult for the poor. As a result Azerbaijan scores low on key health indicators. According to the World Bank's Living Conditions Assessment Report of March 2010, infant and maternal mortality rates stand at 43 per

1,000 live births and 82 per 100,000 live births, significantly above the CIS averages of 26 and 27. According to the same report average life expectancy at birth in 2009 was 65.5 years, slightly below the CIS level and severely lagging behind the EU average. The government has started a significant reform of the health sector in 2008 to improve health care and make it more accessible to all. Among others it has developed a master plan to optimize hospital and primary care systems and plans to introduce an electronic health card to improve the flow of health related information. Other focus areas include vaccinations and pre-natal care, infectious disease surveillance, enforcement of occupational health and safety legislation and statutory health insurance.

Azerbaijan's education system is lopsided. It performs well in lower levels of education, particularly in mathematics, but it lags in reading and higher secondary and tertiary education. International PISA tests reveal that while Azerbaijan's 15-year olds perform as well as students in the US in mathematics, almost 80% of them only have rudimentary reading abilities. School enrolment for students under 15 is high and equitable, indicating wide access to basic education. However, in tertiary education enrolment levels are rather low. Several state programmes have been adopted to provide financial assistance to Azerbaijanis who want to pursue their studies abroad. In general, the current education system does not yet properly support the needs of a quickly growing economy embarking on a path of economic diversification.

Azerbaijan ranks 73rd out of 182 countries on UNDP's Gender Development Indicator. In terms of UNDP's more restrictive Gender Empowerment Measurement - which measures gender inequality in economic and political decision-making - Azerbaijan ranks 100th out of 109 countries. Substantial progress was made in this respect during the December 2009 municipal elections. As a result of an effort to encourage the participation of women in politics, the percentage of women winning municipal seats rose sharply from 1.2 to 26%. The constitution guarantees equal rights for all citizens. It specifically prohibits any restriction of these rights on the grounds of gender. Furthermore, in 2006 Azerbaijan passed a law on gender equality which defines gender-based discrimination as any distinction, exclusion or restriction exercised on the basis of gender, including sexual harassment. Violence against women remains an issue especially in rural areas. While legislation provides for criminal prosecution in cases of harassment or violence against women, the law is difficult to apply in practice.

Azerbaijan is a member state of the International Labour Organisation (ILO). It has ratified not only all of its fundamental conventions, but also all four of its priority conventions which is rare in the CIS. The government has taken steps to implement a regulatory framework supportive of job growth. This resulted in a significant increase in female employment. More concerted effort is needed, however, to reform the labour market to support Azerbaijan's economic diversification. Currently more than half of GDP is generated in oil and gas by 1% of the country's labour force, whereas agriculture which represents 40% of Azerbaijan's labour force only creates 6% of GDP. The constitution and the labour code provide for the right to form a trade union. In practice freedom of association is limited and there is a lack of independent trade unions.

The Nagorno-Karabakh conflict continues to impact the lives of thousands of internally displaced persons (IDPs), many of whom still struggle to find employment. The overall situation related to IDPs and refugees has improved over the past strategy

period. A large number of international and domestic humanitarian organisations are implementing projects to assist IDPs and refugees. The construction of new settlements financed by the government contributed to improve their living conditions.

2.1.3 Legal Reform

Over the years, Azerbaijan has carried out extensive reforms of its legal framework and has managed to put in place a comprehensive legislative base for the transition to a market economy. However, an analysis of key commercial laws shows that even relatively good laws suffer from implementation problems.

The May 2010 ENP Progress Report notes progress in the selection procedure of the bar association, training of judges and prosecutors and execution of court rulings. However, the lack of independence of the judiciary remains an ongoing concern. The commitments undertaken by Azerbaijan in connection with the ENP Action Plan should lead to further improvements in this and other areas. For the Bank's assessment of selected commercial laws please refer to Annex 4.

2.1.4 Environmental Issues

Azerbaijan's environmental policy is enshrined in a number of strategies. The 1998 National Environmental Action Plan (NEAP) prioritises environmental problems into 32 objectives. Among others it lists industrial pollution, rapid decrease of the sturgeon population, deteriorating water quality, loss of fertile agricultural land, loss of biodiversity and damage to the Caspian coastal zone as key environmental concerns. More recent documents restate and add to the environmental priorities listed by the NEAP, without suggesting the order in which they should be implemented. Although most of the NEAP's objectives have not been reached, the overall direction remains valid.

The legal framework has largely been overhauled. The 1999 Law on Environmental Protection is the main legislative act governing the environment. While much of the legal framework is in place, it needs to be developed further particularly in terms of implementing legislation. Amendments to existing legislation on waste management and proposals to strengthen management of chemical substances are being discussed. Approximation with EU legislation will require amending the law on access to information related to the environment and revising legislation on pollution prevention and control.

Steps were taken to improve water and waste management. The authorities launched the Baku Clean City initiative and are working on a comprehensive waste management strategy for Baku. In an attempt to further raise awareness, President Aliyev declared 2010 the Year of Ecology. Nevertheless the latest ENP progress report notes that more efforts are required to implement existing strategies and to enhance monitoring and enforcement. For a more detailed assessment on the environment, please refer to Annex 5.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic Conditions for Bank Operations

Over the past strategy period, Azerbaijan's economy grew by an average of 14.8% per year driven by an oil and gas boom that accounted for 47% of GDP in 2009. The non-oil economy benefited from spill-over effects with the construction and service sectors growing respectively by 13.1 and 11.8% on average over the same period.

Azerbaijan was less affected by the global downturn than other countries. Even so, lower oil prices and weaker external demand caused GDP growth to contract from 25% in 2007 to 10.9% in 2008. Economic growth picked up in the second half of 2009 as oil prices recovered and global economic trends improved, ending the year at an estimated 9.3%. Although the strong economic growth evident since the second half of 2009 is expected to continue with a projected 6% GDP increase in 2010, the global crisis exposed the country's vulnerability to energy shocks and underscored the need to expedite economic diversification.

Increased budget revenue from the oil and gas boom allowed the government to pursue an expansive fiscal policy. Despite some recent cuts, budget expenditure will remain high - in particular for infrastructure investments and social spending - as part of the government's crisis response. This will be supported by large transfers from the State Oil Fund which will account for approximately half of the budget revenue in 2010.

Azerbaijan's expansive fiscal policy during the past strategy period fuelled inflation which reached 20.8% in 2008. Inflationary pressures subsided as the global financial crisis intensified. By the end of 2009 the annual inflation rate had dropped to 1.5%. Although inflation has since increased to 3.8% in March 2010, it is expected to remain in the single-digit range in 2010.

The financial sector remained relatively unaffected due to its limited exposure to international capital markets. Following an average annual credit growth of 80% in 2007 and 2008 (albeit from a low base), credit expansion slowed sharply in the first half of 2009 with some banks reportedly suspending lending activities. This trend reversed in the second half of 2009 as liquidity improved. Still credit expansion in 2009 declined to 18% from 60% a year earlier. According to the central bank NPLs doubled to 3.6% at the end of 2009 in an environment of slower economic growth and reduced collateral value. NPLs for EBRD partner banks averaged 10.5% reflecting the Bank's stricter NPL definition. Although NPLs may increase further in 2010, the overall outlook for the banking sector remains stable. Reported capital adequacy and liquidity ratios of banks remain satisfactory and on average well above minimum requirements.

In response to the global downturn, the central bank substantially loosened monetary policy. Since October 2008 it has steadily lowered its refinancing rate from 15% to currently 2% and relaxed banks' reserve requirements from 9% to 0.5%. In total the central bank provided \$1.1 billion in liquidity support to banks and \$1.1 billion for on-lending to the State Oil Company of Azerbaijan (SOCAR) and state-owned Azeraluminium. As credit expansion resumes, the central bank is expected to gradually withdraw its liquidity support. The effectiveness of monetary policy will nevertheless remain constrained by the limited tools available to the central bank, an

underdeveloped banking sector and poor coordination between fiscal and monetary policy.

In the first half of 2009 the central bank supported the exchange rate which came under pressure from lower foreign exchange inflows as the drop in exports outstripped the decline in imports. The central bank's commitment to maintain a stable exchange rate coupled with accumulated reserves of about 12% of GDP at the end of 2009 provide a cushion against downward pressures from declining exports due to lower oil prices. As a result the exchange rate is expected to remain stable at AZN/\$ 0.8 in the medium term.

Azerbaijan's strong macroeconomic performance and improved management of its energy resources, led Fitch Ratings Ltd. to raise Azerbaijan's credit ratings to investment grade (BBB-) in May 2010. Please refer to Annex 6 for selected economic indicators.

2.2.2 Transition Successes and Challenges

Structural reforms have progressed unevenly over the past strategy period. Azerbaijan embarked on a reform programme in line with its commitments under the ENP Action Plan and WTO accession. In this context Azerbaijan undertook to implement wide-ranging reforms to strengthen public administration, rule of law and investment climate. Although the government has undertaken a broad series of legislative initiatives, implementation has been slow.

With a score of 2.63 on the Bank's 2009 Transition Indicators, Azerbaijan's reform progress lags behind other transition countries which score an average of 3.10. The Bank's Assessment of Transition Challenges in 2009 notes that transition challenges remain "large" across most sectors except agribusiness, natural resources and transport. In particular, Azerbaijan needs to advance more difficult and time consuming second-generation reforms such as large-scale privatisation, building market institutions and infrastructure reform. Please refer to Annex 7 for an overview of transition ratings by sector.

To reduce Azerbaijan's dependence on oil and gas, lay the foundations for long-term sustainable growth and promote employment, the government has made economic diversification a cornerstone of its development strategy. To achieve this objective, Azerbaijan will need to build on its accomplishments and overcome remaining transition challenges. In particular, as described below, Azerbaijan will have to create a business enabling environment, expedite ongoing reforms at customs and tax administration, embrace the global economy, deepen financial intermediation and advance public infrastructure reform.

ICA Sector

Azerbaijan successfully attracted large investments into the oil and gas sector by creating a favourable operating environment for domestic and foreign investors. The government needs to recreate this success to attract investments in the non-oil economy.

Some steps have been taken to improve the business environment as recognised by the World Bank's Doing Business 2009 report which ranks Azerbaijan as the top reformer out of 181 countries in 2008. Improvements were made in business

registration (through the creation of a one-stop shop), protection of investor rights and property registration. Azerbaijan's participation in the European Neighbourhood Policy (ENP) and Eastern Partnership is expected to further bring its laws and regulations in line with European standards and encourage stricter implementation.

Despite these promising reforms the business environment remains challenging. Corruption remains a concern as acknowledged by the government. Transparency International ranks Azerbaijan 143rd out of 180 countries surveyed in 2009 (compared to 158th a year earlier), ahead of Russia, Ukraine and most of Central Asia but well below more advanced transition countries. In response the President issued a decree to step up the fight against corruption in June 2009. An anticorruption unit was established in the Ministry of Taxes in July 2009 to combat corruption by the tax administration. Other efforts include strengthening the institutional capacity of authorities dealing with corruption matters and training civil servants on corruption prevention.

Firms surveyed in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV) also cite licensing and state inspections as obstacles to their development. Challenges also remain in the enforcement of competition policy and ensuring a level playing field for all businesses. Informal monopolies constrain competition and prevent the emergence of a strong non-oil economy. To address these concerns, the government should promote deregulation, dismantle informal barriers and simplify licensing and permit requirements to reduce administrative discretion and rent-seeking. Creating a level playing field and upholding the rule of law would encourage the entry of new players, promote competition and diminish the stronghold of informal monopolies. In this respect the President issued a decree to improve anti-monopoly policy and consumer protection in June 2009. An agency responsible for these areas was established under the Ministry of Economic Development.

Surveys invariably designate customs and tax administration as impediments to business which significantly increase transaction costs. Out of 183 countries the Doing Business 2010 report ranks Azerbaijan 177 in the "trading across borders" and 108 in the "paying taxes" categories. Cumbersome procedures and arbitrary practices compel companies to operate in the grey economy and to stay small to avoid unwanted attention. In response to these concerns, the government adopted a State Programme for Reform of Customs in 2008. The alignment of customs legislation with WTO accession requirements and the introduction of one-stop shops is expected to improve custom procedures and reduce informal barriers and transaction costs. The government is also considering various improvements to the tax administration. Electronic tax filing is being implemented. In July 2009 the President signed into law 46 amendments to the tax code that are expected to help MSME development. The changes, which became effective in January 2010, reduced the maximum income tax rate and aim to strengthen taxpayers' rights. To encourage companies to operate officially, the government needs to deepen these reforms and alleviate administrative burden. In particular the government should further simplify the legislative and regulatory framework for customs and taxes, encourage electronic reporting, reduce the human interface and move to risk-based inspections and audits.

Finally, while relative isolation in certain sectors spared Azerbaijan from the worst of the global turmoil, the long-term development of its non-oil economy will depend on Azerbaijan's ability to integrate into the global economy. Closer integration would improve productivity and competitiveness. WTO accession would support economic

diversification by creating a stable and predictable framework for importers and exporters, resisting protectionist reflexes and signalling a desire to deepen trade in non oil goods and services.

Financial Sector

The legislative and regulatory framework for the financial sector continued to improve over the past strategy period. Among others the central bank tightened prudential rules with regard to credit risk, reporting standards and the minimum capital requirement (which was increased to AZN10 million in July 2008). Banks and insurance companies have been exempted from corporate tax for three years from 2009 onwards if profits are used to increase their statutory capital. However, the tax administration decided retroactively to treat any capitalisation of profits as a dividend payment subject to 10% withholding tax. To further boost confidence in the banking system, the deposit insurance coverage was increased from AZN6,000 to AZN30,000 in June 2009.

Significant progress was made in the fight against money laundering. In February 2009 a new anti-money laundering law was passed. In its public statement of December 2009 Moneyval noted that Azerbaijan has now adopted and implemented a legislative basis to counter money laundering and terrorist financing and that the financial intelligence unit (which was recently established under the central bank) is receiving and analysing reports.

The Doing Business 2010 report ranks Azerbaijan 15 out of 183 countries in the “getting credit” category. This category reflects the coverage of credit registries and the rights of borrowers and lenders. It is not a measure of the volume of credit. According to BEEPS IV 23% of firms surveyed claimed that access to finance was a problem. With total credit at only 24% of GDP in 2009 (compared to 50% for EU accession countries), financial intermediation seems low for the needs of the country.

Additional structural reforms would improve access to finance for the non-oil sector. Consolidation in the banking sector – which the central bank promotes although progress has been slow – would increase capitalisation, efficiency and confidence in the sector. Privatizing the dominant state-owned bank and attracting large foreign banks would encourage competition and set new standards for the sector. Credit history should be made more readily available to lenders by extending the coverage of the credit bureau and distributing credit information from retailers, trade creditors and utilities in addition to financial institutions. Plans of the central bank to promote the establishment of a private credit bureau are a positive development in this respect. Judicial procedures should be revised to ensure easy enforcement of collateral in an event of default. The global financial crisis highlighted the need to further develop the credit appraisal as well as liquidity and risk management skills of banks and increase their local currency funding base. An active banking association is necessary to promote policy dialogue between the sector and the authorities.

The non-bank financial sector is embryonic. The law on non-bank credit institutions, adopted in December 2009 and promulgated in February 2010, creates a legal framework for non-bank credit institutions and strengthened the central bank’s supervision of the sector. Nevertheless recent demands on foreign-owned microfinance institutions (MFIs) to transfer part of the grant financing received from foreign donors and the retroactive application of social security contributions (from which they were formally exempt) form a serious setback for the microfinance sector

which had hitherto flourished in Azerbaijan. The insurance market remains small with insurance premiums constituting less than 0.5% of GDP. A legislative and regulatory framework for the insurance sector has been established. Minimum capital requirements have been increased. Moreover laws and regulations are being enforced, as evidenced by the revocation of licenses of companies that did not meet minimum requirements. There are currently no private pension funds operating in the country. A draft private pension law was withdrawn following concerns that the financial markets were not yet sufficiently developed. Trading on the Baku Stock Exchange is mostly limited to treasury bills and predominantly conducted over-the-counter. Corporate bond issues increased prior to the global financial crisis but poor financial transparency of local companies continues to hamper the development of equity markets. The Baku Stock Exchange and the State Committee for Securities have launched a number of capacity building initiatives in cooperation with IFIs including the Bank.

Energy and Infrastructure Sectors

Infrastructure plays an important role in promoting economic diversification by reducing companies' production and transportation costs and enhancing their productivity.

In **general**, during the past strategy period, the government has significantly invested in energy and infrastructure to increase coverage and improve services. Tariffs were increased to cost recovery for most utilities in 2007 but remain based on domestic energy prices which are below international prices. The government also invested in metering and billing systems to increase collection rates. IFRS reporting - which became mandatory for all state-owned companies in 2008 even though implementation remains an issue for some while others such as Azerenerji made noticeable progress - is expected to improve financial transparency and accountability of utilities. To ensure the financial viability of utilities and eventually attract private investment (which is almost absent), the authorities should adopt a clear pricing policy that builds on the 2007 tariff adjustments. Utilities should also be encouraged to operate commercially in a fully transparent and accountable manner. Strengthening public procurement would ensure a more efficient use of public funds. A step in this direction was taken at the end of 2008 when the President issued a decree to establish clear rules for the selection, execution, monitoring and auditing of public investment projects.

In the **energy** sector, Azerbaijan continued to actively participate in the EITI which aims to improve revenue transparency. In February 2009 Azerbaijan became the first EITI compliant country.

The tariff council increased gas tariffs for households in July 2009 but left tariffs for large industrial users unchanged. SOCAR took over Azerigas (the state-owned gas distribution company) in July 2009 as well as Azerkimiya (the state-owned petrochemical complex) in April 2010. Both companies were performing poorly and the government aims to restructure them using SOCAR's financial leverage and knowhow.

Azerbaijan continued to invest in power generation and distribution infrastructure. Access to electricity is now almost universal and the quality of services improved significantly. Collection rates improved but need to be further increased to nearly 100% to ensure sustainability. Further investments in the distribution segment would

improve efficiency. Azerenerji (the state-owned power company) remains the dominant utility in the power sector. As mentioned in section 1.2 above, Azerenerji successfully completed its first CDM transaction with the Bank's assistance. Azerenerji commissioned a second electricity link with Iran and is keen to proceed with the Black Sea Transmission line interconnecting Azerbaijan, Georgia and Turkey. However, plans to introduce independent power producers (IPPs) and increase competition in the sector have been abandoned. Little progress has been made to unbundle the sector.

The government announced its intention to develop renewable energy (in particular wind, solar and hydro) and improve energy efficiency. A state agency for alternative and renewable energy sources was established under the Ministry of Industry and Energy in July 2009.

Improving **transport** infrastructure remains an important priority for Azerbaijan. The government recognises the need to bolster the financial viability and operating efficiency of the state railway company to improve services. A presidential decree established Azerbaijan Railways as a state-owned closed joint stock company in July 2009. This new company is expected to commercialise its activities and introduce private sector participation in a number of railway services such as passenger and freight transport.

In the road sector the government focused predominantly on the East-West and North-South corridors as well as roads in and around Baku. In 2007 the government established Azerbaijan Road Services (ARS) as an independent agency separated from the Ministry of Transport. ARS is responsible for road management whereas the Ministry of Transport supervises road-sector performance. Recruitment of more road transport specialists at ARS, a clearer division of responsibilities between the Ministry of Transport and ARS and adoption of a multi-year budget would improve ARS' performance and accountability.

In the aviation sector Azerbaijan signed in July 2009 the horizontal air services agreement. This agreement harmonises existing air services agreements between Azerbaijan and EU member states with EU law. The authorities also strengthened cooperation with the European Aviation Safety Agency and are making progress towards convergence with European safety standards.

In the maritime sector, the authorities are building a new port at Baku Alyat to meet increasing freight and passenger transport demand.

The May 2010 ENP Progress Report notes some positive developments in the **municipal** sector but calls for a clearer division of powers between municipalities and local executive authorities. The EU also expressed concerns about constitutional amendments adopted in March 2009 which could compromise the independence of local self government. The central government continues to play a key role in municipal utilities. Reforms at Azersu, the state-owned nationwide water utility, have been slower than other utilities. Water meters and meter-based billing have recently been introduced in large cities. But collection rates remain relatively low and affect Azersu's financial performance and ability to invest in infrastructure improvements. Corporatizing Azersu, creating regional water utilities and strengthening local governments would yield important improvements. Private sector participation in municipal services is limited to profitable mini bus services which have been deregulated, solid waste collection and landfill management.

2.3 Access to Capital and Investment Requirements

Foreign direct investments are mainly concentrated in the hydrocarbon sector with only a small proportion going to the non-oil sector due to a difficult business environment. Azerbaijan's access to international financial markets improved but remains limited to large state-owned companies and the banking sector often supported by IFIs. The government postponed its first Eurobond issue initially because of large fiscal revenues resulting from the oil boom and more recently due to the global financial crisis.

For the next three years of the strategy period, the Bank's private clients in the non-oil sector are likely to continue to operate under restricted access to international financial markets. Foreign direct investments in the non-oil sector are expected to be limited due to a challenging business environment. Domestic credit provided by the banking sector will grow from the lower levels during the crisis, but term lending will remain a major constraint. IFIs will continue to be the main source of international finance for enterprises and financial institutions.

3. Strategic Orientations

3.1 Bank's Priorities for the Strategy Period

The Bank will continue to support Azerbaijan in its efforts to implement its reform programme and improve its investment climate. The Bank's operational priorities will cover the general development of the private sector outside the oil extractive industry, restructuring and consolidation in the financial sector (with a special emphasis on transparency and good corporate governance) and the rehabilitation (or modernisation) of the country's infrastructure.

The ETC initiative and the grant financing provided through the ETC Multi-donor fund played a crucial role in the implementation of the Bank's previous strategy. This role is likely to be undiminished going forward. The Bank will seek increased donor grant financing to fund project preparation and implementation, support legal transition work, institution building and policy dialogue.

The Bank will ensure that all operations in Azerbaijan comply with the Bank's Environmental and Social Policy as well as ILO and national labour standards. Efforts will be made to assist clients in achieving compliance.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 ICA Sector

The Bank's overarching transition objective for the corporate sector will be to assist the diversification and regional development of Azerbaijan's economy. The Bank will assist enterprises in moving up the value chain and accessing international markets by expanding and upgrading their production facilities. In its projects the Bank will promote corporate governance, transparent ownership and financial disclosure.

The Bank will pursue the following operational priorities:

- The Bank will continue to pursue investment opportunities in all enterprise sectors to support the development of Azerbaijan's non-oil economy. Given the potential of Azerbaijan's agricultural sector and its importance in terms of regional development, the Bank will place a special emphasis on the agribusiness sector. In particular the Bank will continue to support local and foreign strategic investors to create successful local food and drinks processing companies with the capacity to sustain long-term investment programmes. The Bank will also provide long-term financing to the wholesale and retail sectors. In the grain sector, the Bank will support investors in their efforts to improve grain-related infrastructure and in particular grain terminals and storage facilities.
- The Bank will explore opportunities to support private sector involvement in predominately state-owned industries (such as telecommunications, petrochemicals and metallurgy) through privatisations, strategic investment and public private partnerships. In addition to debt and equity financing, the Bank will provide technical assistance to facilitate the restructuring of state-owned assets and private sector involvement.
- The Bank will act as a catalyst to attract much needed foreign direct investment (FDI) and know-how either by investing alongside foreign strategic investors or by assisting the development of local companies which in due course may attract foreign investment. Where appropriate the Bank will seek to co-invest with the state-owned AIC.
- The Bank will use ETC products (such as MCFF, DLF and DIF) to support the development of local medium to large enterprises in all ICA sectors, mobilising grant financing for project preparation where appropriate.
- The Bank will continue to provide advisory services to private enterprises through its TAM and BAS programmes to improve local management skills, support international certification and assist with business planning and restructuring. Both programmes will continue to have a strong regional focus to support the regional development of Azerbaijan's economy. When appropriate the Bank will cross-refer its investee companies to TAM and BAS and vice versa. For a more detailed overview of TAM and BAS objectives please refer to Section 3 of Annex 3.

3.2.2 Financial Sector

The Bank's main transition objective in the financial sector will be to strengthen financial intermediation to ensure efficient financing of the private sector particularly SMEs and MSEs including in Azerbaijan's regions. To this end the Bank will support transparent consolidation in the banking sector and catalyze FDI to increase competition and set new standards for the sector. The Bank will also encourage the use of new financial instruments such as mortgage financing or leasing and support the expansion of the non-bank financial sector. The Bank will continue to promote good corporate governance, risk management and transparency in its partner institutions.

In support of these objectives, the Bank will pursue the following operational priorities:

- The Bank will continue to actively engage its partner **banks** through the provision of additional SME and MSE credit lines and participation in the Bank's TFP and MCFE programmes. The Bank will seek to extend its co-operation to new partner banks and assist in the development and promotion of new financial instruments such as leasing and mortgage financing. The Bank may consider further equity investments in banks among others to support consolidation and induce FDI. Where appropriate, the Bank will provide technical assistance to meet these priorities.
- The Bank will continue to support the development of **microfinance** including through the extension of its MSE programmes to commercial banks as well as to other, carefully selected, non-bank financial institutions. In order to support the regional development of Azerbaijan's economy, the Bank's microfinance programmes may include a regional component to ensure appropriate availability of microfinance outside Baku. The Bank will support the conversion of large microfinance institutions to banks.
- The Bank will explore opportunities to assist the expansion of the **non-bank financial sector** through investment and technical assistance. The Bank will continue to implement its capacity building programme at Baku Stock Exchange.
- In the implementation of the aforementioned objectives, the Bank will actively engage with other IFIs and commercial lenders which provide financing to the Bank's partner institutions.

3.2.3 Energy and Infrastructure Sectors

The Bank's overall transition objective for the infrastructure sector will be to ensure financial sustainability and efficient use of resources. In this respect the Bank will instil commercial discipline and improve operational efficiency, financial transparency and corporate governance at its state-owned clients through capacity building and the introduction of commercially-based information systems and procedures. The Bank will promote sector fairness and support the emergence of a robust regulatory framework. To ensure a more efficient use of public funds, the Bank will encourage competition and greater involvement of the private sector through competitive tendering for contracts. The Bank will support the regional development of all infrastructure sectors with a particular focus on interconnection with neighbouring countries.

Over the next strategy period public sector projects will continue to be financed predominantly on a sovereign basis. However, the Bank will examine opportunities to structure creditworthy public sector projects on a non-sovereign basis. Opportunities for private sector involvement in public sector projects will remain limited. The Bank will facilitate private sector investment in all infrastructure sectors by providing loan or equity financing to suitable strategic investors, provided that in the case of public-private partnerships the private sector investor was selected pursuant to a transparent procurement process.

The Bank will continue to support Azerbaijan's infrastructure development with a particular emphasis on the power sector and energy saving investments.

In particular the Bank will pursue the following operational priorities:

- In the **energy** sector, the Bank will continue to support Azerenerji, the state-owned power utility and the Bank's largest client in Azerbaijan. The Bank is ready to finance the continuation of the Black Sea Transmission Line from Georgia to Azerbaijan and will endeavour to raise grant co-financing from the EU's Neighbourhood Investment Facility (NIF) and other donors for this project.

The Bank is also prepared to finance Baku Electricity Distribution Company for underground cabling, the rehabilitation of its substations and transformer stations and the installation of a metering system to improve collection. In parallel the Bank will mobilise technical assistance to assist with the project scoping and technical and environmental due diligence.

The Bank will seek to support gas related infrastructure particularly in terms of distribution efficiency. The Bank is ready to consider contributing to the funding of the Nabucco Gas Pipeline Project and will mobilise co-financing for this strategic energy security project.

- In the **infrastructure** sector, the Bank is interested to finance urban transport, solid waste and water supply and sanitation projects. Where appropriate the Bank will seek to support private sector participation in urban transport and solid waste management including through ETC instruments. Projects in the municipal sector are likely to require substantial support from the local and national authorities to introduce necessary sector reforms. The Bank is currently discussing with Ganja municipality to structure an urban transport project. If successful the project could be replicated in other regions.

The Bank is also interested to finance the new shipyard in Baku as well as other transport related infrastructure.

3.2.4 Policy Dialogue

The Bank will underpin the aforementioned operational objectives by an ongoing policy dialogue in close consultation with other IFIs, foreign investors and the local business community. In particular:

- the Bank will continue to draw on its investments projects and TAM and BAS experience to raise specific issues to improve the investment climate. The Bank will support well defined business enabling initiatives of other IFIs and the government;
- as the largest investor in the financial sector, the Bank will continue to work with the authorities to strengthen the banking sector and support the emergence of the non-bank financial sector;
- the Bank will continue to promote and support legal and regulatory reform (including tariff methodology) in the power sector to encourage private sector participation and investments in renewable energy. The Bank will also explore every opportunity to foster energy efficiency measures in the public sector as well as in the private corporate sector.

These objectives can only succeed with the active participation and full support of the authorities. Where this is the case, the Bank will provide technical cooperation to

assist with legal and regulatory reform and capacity building of state agencies to meet these objectives.

4. Other IFIs and Multilateral Donors

4.1 IFI and Donor Co-operation

The World Bank, IFC, Asian Development Bank, Islamic Development Bank and BSTDB all have active lending programmes in Azerbaijan. Although EIB has a mandate to finance projects in Azerbaijan, it has not yet concluded a framework agreement with Azerbaijan and therefore has no investments in the country. IMF does not have an active programme and closed its representation in 2009. In addition various export credit agencies (such as JBIC and KEXIM) support investment in Azerbaijan.

The ENP Action Plan and Azerbaijan's bid to join the WTO could serve as a platform for enhanced coordination among Azerbaijan, the IFIs and the international community. Coordination is mostly ad hoc although the EU Delegation plans to introduce more formal donor coordination meetings. Consultations are held on a bilateral basis among IFIs in respect of individual projects and sometimes sectors. The Bank regularly liaises with the World Bank, IFC and USAID on a variety of issues including macroeconomic developments, investment climate and infrastructure projects. The Bank would welcome closer cooperation among IFIs and other donors in terms of policy dialogue on investment climate issues and sector reform.

As of April 2010 donors have provided approximately €26 million for Bank projects in Azerbaijan. Over the past strategy period, donors provided roughly €6 million, half of which has been disbursed. Among others, in 2008 Austria provided just over €1 million to support the continuation of the BAS programme. In 2009 the EU (through NIF) approved €2.9 million to support financial intermediaries in Azerbaijan and Georgia. For an overview of the Bank's technical co-operation programme and the donors who have contributed to it, please refer to Annex 8.

4.2 IFIs and International Organisations¹

4.2.1 Asian Development Bank (ADB)

Azerbaijan has received about \$660 million in loan assistance since joining ADB in 1999. ADB's operations in Azerbaijan were initially guided by the Interim Operational Strategy. Later on ADB transitioned from a highly fragmented and unfocused business plan to one targeting three priority sectors: roads, energy, and water supply and sanitation. To ensure the sustainability of the government's poverty reduction efforts, ADB provided a number of technical assistance projects that helped the government to prepare a long-term sustainable economic and social development strategy.

In 2010, ADB operations in Azerbaijan will continue to focus on certain priority sectors: transport, water supply and sanitation, energy generation and distribution and the private sector. All these sectors are in line with the government's key development priorities. A new financing modality introduced by ADB in recent years - the Multi-

¹ In alphabetical order.

Tranche Financing Facility (MFF) - allows it to respond more efficiently to the government's development needs. In addition to the \$500 million MFF for the Road Network Development Programme approved in 2007, ADB approved another \$600 million MFF for the Water Supply and Sanitation Investment Programme in 2009 to rehabilitate the water supply and sanitation system in selected secondary towns. ADB's transport sector operations may expand further into the railway sub-sector subject to the approval of the government's programme on the development of the railways. ADB may also propose up to \$500 million MFF to finance the Power Distribution Investment Programme in Azerbaijan. Renewable energy also remains a focus area of ADB.

ADB's private sector operations are relatively new. To date ADB provided about \$70 million in loans to selected commercial banks. By mid-2010 ADB expects to co-finance - alongside the Bank - the expansion of Garadagh Cement, its first investment in Azerbaijan's corporate sector.

4.2.2 Black Sea Trade and Development Bank (BSTDB)

Azerbaijan is a founding member of the BSTDB which started its operations in 1999. To date BSTDB has invested \$77.25 million in 13 projects predominantly in the financial sector.

BSTDB focuses on small and medium scale projects in the non-oil sector with development and cooperation impact in line with the new medium-term (2007-2016) Poverty Reduction and Development Program. BSTDB aims to support the economic development of Azerbaijan by financing bankable projects particularly in trade financing, infrastructure, telecommunications, transportation, agriculture and agribusiness, manufacturing and development of MSMEs. Over the period 2007 to 2010 BSTDB aims to sign 7 transactions for a total of SDR 40 million (about SDR 10 million per annum).

4.2.3 European Investment Bank (EIB)

In December 2006 the Council of the European Union granted the EIB a mandate for the period from 2007 to 2013 to lend up to €3.7 billion in Russia, Ukraine, Moldova and the Caucasus for projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Priority is given to projects on extended major trans-European network axes, projects with cross-border implications for one or more Member States and major projects favouring regional integration through increased connectivity. In the energy sector, strategic energy supply and energy transport projects are of particular importance. EIB is in the process of negotiating a framework agreement with Azerbaijan which would enable it to invest in the country.

A Memorandum of Understanding signed among the Bank, the EIB and the European Commission in December 2009 aims to reinforce the close cooperation between the three institutions in the Bank's countries of operations.

4.2.4 European Union (EU)

The EU plays an increasingly important role in supporting the transition of Azerbaijan. The opening of an EU Delegation in Baku in February 2008 responds to

Azerbaijan's requests for closer ties with the EU and facilitates the implementation of EU-assistance programmes in Azerbaijan.

EU-Azerbaijan relations are framed within the Partnership and Cooperation Agreement and the European Neighbourhood Policy (ENP). The ENP Action Plan, adopted in November 2006, sets forth the strategic objectives of the ENP cooperation between Azerbaijan and the EU. The ENP Action Plan covers the following priorities:

- peaceful resolution of the Nagorno-Karabakh conflict;
- democracy and electoral process;
- human rights and fundamental freedoms;
- business and investment climate;
- customs;
- economic diversification;
- convergence of economic legislation and administrative practice;
- energy and transport cooperation;
- cooperation in justice and border management; and
- regional cooperation.

While Azerbaijan benefits from financial assistance under the ENP (€2 million was earmarked for the period 2007 to 2010 and €22.5 million for the period 2011 to 2013), the government is mainly interested in knowhow and expertise. Implementation of the ENP Action Plan will advance the approximation of Azerbaijani legislation, norms and standards to those of the EU and will support Azerbaijan's ambition of further integration into European economic and social structures.

The Eastern Partnership Initiative opens the prospect of closer cooperation in the form of an EU-Azerbaijan Association Agreement, gradual integration in the EU economy through a Deep and Comprehensive Free Trade Area (DCFTA) and visa liberalisation. To assist Azerbaijan in achieving these objectives, the EU has launched a Comprehensive Institution Building programme (CIB). CIB is designed to strengthen those institutions that are essential for the implementation of the Association Agreement and the DCFTA. A minimum of €9 million has been allocated for the CIB for the period 2011 to 2013.

4.2.5 International Monetary Fund (IMF)

Since Azerbaijan joined in 1992, the IMF has been actively involved in structural reforms, poverty reduction measures, public expenditure management and institution building. The IMF offered technical advisory services in areas such as central bank operations, tax administration, balance of payment and external debt management and public finance management. Azerbaijan has stopped borrowing from the IMF in 2001 and currently does not have a programme with the IMF.

4.2.6 World Bank Group

Azerbaijan became member of the World Bank Group in 1992. Within the framework of its Country Partnership Strategy covering the fiscal years 2007-2010, the **World Bank** has been assisting Azerbaijan in supporting sustainable and balanced growth of the non-oil economy by helping expand access of people to financial services; improve the business environment and develop essential infrastructure and

services including roads, irrigation and water supply and sanitation. Special attention has been paid to the rural economy.

World Bank assistance has been used to support the poor through the Targeted Social Assistance System and has helped rural communities to build local infrastructure and produce goods of common use. World Bank support has also been used to improve the general education system by introducing changes to the curriculum and financing system.

The World Bank is also helping Azerbaijan to build an effective health care system that will provide better quality services. The World Bank has been providing high quality and timely advice on strategic reforms, such as health financing, social protection, food security, and public investment programming. Major analytical work includes the Country Economic Memorandum, Programmatic Poverty Assessment, and various studies and assessments.

Azerbaijan has almost finished the transition from International Development Association (IDA) to International Bank for Reconstruction and Development (IBRD) financing due to its rapidly growing economy and creditworthiness. Its first IBRD loan was approved in May 2005. Since that time the country received eight more IBRD loans totalling to \$1.65 billion which makes 81% of the overall commitments for active projects.

In 2008, the World Bank portfolio was tripled with the approval of eleven projects for a total amount of \$1.26 billion. With two more projects approved in FY08, it is the largest in Europe and Central Asia region (ECA) in value terms. The overall commitments for active projects total \$2.18 billion.

The current Country Partnership Strategy for 2007-2010 is close to completion and the World Bank will complete a new framework for its engagement in Azerbaijan towards the middle of 2010.

Azerbaijan joined **IFC** in 1995. As of December 2008, IFC committed nearly \$289 million of its own funds and arranged nearly \$104 million in syndications. IFC's investments in Azerbaijan are mainly in the oil and gas, financial, general manufacturing and agribusiness sectors.

IFC emphasizes its advisory work in Azerbaijan which is focused on creating opportunities in the non-oil sectors. One of the main priorities for its advisory arm is building a strong financial markets infrastructure to support private sector and SME growth. Other programme highlights include a leasing development project, an SME linkages program, corporate governance projects as well as planned programmes aimed at developing the housing finance market and improving the business enabling environment.

Azerbaijan has been a member of the **Multilateral Investment Guarantee Agency (MIGA)** since 1993. MIGA guarantees facilitated approximately \$75 million of FDI in manufacturing, agribusiness, telecommunications and banking.

4.2.7 United Nations (UN)

Azerbaijan became a member of the United Nations in 1992. Since that time, various UN agencies have launched their programmes in the country in order to assist it.

The United Nations Development Programme (UNDP) was the first to establish a full presence in Azerbaijan, due to its role as the manager of the Resident Coordinator System. UNICEF, UNHCR and other agencies soon followed, concentrating on the serious needs for emergency humanitarian assistance, especially to those most affected by the Nagorno-Karabakh conflict. Over time, the UN role in Azerbaijan has shifted toward longer-term socio-economic development needs.

The UN Country Team now consists of four agencies with an international Representative accredited to the government (UNDP, UNICEF, UNHCR and the World Bank), and many others with a local presence (including WHO, UNFPA, UNCHCR, WFP, UNAIDS, UNODC, ILO, FAO, UNESCO) with sub-regional representation at international level.

The United Nations Development Assistance Framework (UNDAF) is a five-year planning document developed by the government and the UN Country Team to define their joint action for development. The new UNDAF (2011-2015) has three main pillars (economic development, social development, and governance) in which various constellations of UN agencies will work with the government to promote development. Total estimated resources for this cooperation are \$92 million over the five years, some of which is expected to be contributed by the government of Azerbaijan.

ANNEX 1 – POLITICAL ASSESSMENT

Compliance with Article 1

Azerbaijan is committed to and is making progress towards the implementation of the principles of multi-party democracy, pluralism and market economics outlined in Article 1 of the Agreement Establishing the Bank. A more consistent application of these principles would enhance political accountability, strengthen the rule of law and help overcome the remaining challenges.

Azerbaijan's membership in the Council of Europe and its commitments under the ENP Action Plan, approved in November 2006 for a five year period, provide the country a platform to demonstrate its commitment to European democratic values and bring its legal framework in line with European standards.

The latest ENP progress report, published on 12 May 2010, concluded that Azerbaijan progressed in the implementation of the EU-Azerbaijan Action Plan notably in respect of economic and social governance. The country also made progress with regard to fighting money laundering. Only limited headway was made in terms of WTO accession negotiations. The report also stressed the need to promote political dialogue and strengthen the independence of the judiciary and the rule of law.

The conflict with Armenia over Nagorno-Karabakh - which has a direct bearing on the social, political and economic life in Azerbaijan - remains unresolved. Little progress was achieved during the previous strategy period, although the parties continue to negotiate under the auspices of the OSCE Minsk Group (co-chaired by Russia, France and the US).

Political Accountability

The constitution provides for a presidential form of government. Since he was first elected president in October 2003, Ilham Aliyev has consolidated his political power. According to international observers from ODIHR, the most recent presidential election held on 15 October 2008, marked considerable progress towards meeting international standards but did not fulfil all OSCE commitments. The election was peaceful but lacked robust competition and vibrant political debate. At the same time, there were fewer reported instances of interference by the authorities in the election process than in previous elections.

In March 2009, in the aftermath of the presidential election, the authorities held a nationwide referendum which removed the limit of two consecutive presidential terms. The March referendum further enhanced the already strong power of the executive. A small delegation from the Parliamentary Assembly of the Council of Europe monitored the vote on the referendum and gave an overall positive assessment on the technical process.

Legislative authority is vested in the Milli Mejlis (National Assembly), a unicameral body composed of 125 MPs elected for five years. Although there are more than 50 political parties in the country, the ruling presidential Yeni Azərbaycan Partiyasi (YAP) retains a dominant position in the legislature and in the political system. Although parliament is slowly evolving as a forum for political debate, it has yet to effectively check and balance the strong executive power.

The last parliamentary elections took place on 6 November 2005. On 13 May 2006 there was a re-run in ten constituencies where the central electoral commission and the constitutional court had cancelled the results of the November elections. All 125 seats were elected in single mandate constituencies (an amendment to the constitution in 2002 eliminated the proportional list component of parliamentary elections). As a result of the elections, YAP, chaired by President Aliyev, maintained its dominant position in parliament. Following the elections ODIHR recommended a number of improvements to the electoral process.

The political opposition is divided and seems unable of presenting a strong challenge to the president. This was evident in the presidential election of October 2008, when Ilham Aliyev comfortably secured a second five-year term in office. Regrettably, some opposition parties did not participate in the election, thus limiting the choice for the electorate. The opposition has remained marginalised since the election and continues to struggle to strengthen its popular support.

Despite calls to the contrary, most members of the opposition Azadliq group elected in November 2005 refused to take their seats in parliament. However, MPs from the Musavat Party, which also belonged to the Azadliq group, decided in favour of taking their seats, effectively splitting the main opposition electoral bloc. The Council of Europe and the OSCE called for a constructive dialogue between the ruling party and the opposition, underscoring the country's commitment to political pluralism.

YAP's dominant position in the political system was reinforced in the municipal elections held on 23 December 2009, in which YAP won a landslide victory. The election itself was peaceful and well administered but was marked by a low official turnout and an absence of real political competition. Importantly, the number of women winning seats in municipal councils rose sharply, as a result of an effort to encourage female participation.

The next parliamentary elections are scheduled for November 2010. The Council of Europe, the European Union and the OSCE have announced plans to assist Azerbaijan in preparing those elections, concentrating on: i) strengthening the capacity and independence of the electoral administration; ii) supporting the media environment to ensure independent, unbiased and plural coverage of the electoral campaigns of all candidates; iii) encouraging the appropriate exercise of freedom of assembly, and iv) stimulating public interest and participation in the electoral system. In the run-up to the parliamentary elections, OSCE is meeting representatives of political parties and other stakeholders to discuss the electoral administration (including the composition of election commissions, the registration of candidates and the procedures for dealing with election complaints).

Rule of Law, Human Rights and Freedom of Media

The constitution and the laws provide a legal framework for the rule of law, the protection of human rights and fundamental freedoms. Azerbaijan is party to most UN treaties on human rights and ratified the Council of Europe international conventions, including the Convention for the Protection of Human Rights and Fundamental Freedoms.

In the area of judicial reform, progress was made on the selection procedure of the bar association, training of judges and prosecutors, and execution of court rulings. However, the lack of independence of the judiciary remains an ongoing concern.

Corruption remains a concern in Azerbaijan, as acknowledged by the authorities. In the latest Transparency International Corruption Perception Index, Azerbaijan was ranked 143rd out of 180 countries (compared to 158th the year before), ahead of Russia, Ukraine and the republics of Central Asia (except Kazakhstan). According to Transparency International, the government is committed to improving the business environment and is increasing its efforts to curb corruption. In the past five years a number of offices that help citizens to claim their rights in cases of corruption have been opened across the country. The government entered into a dialogue with civil society groups through a network of local anti-corruption NGOs, including Transparency International. Despite these positive developments, corruption remains entrenched throughout society and the government needs to improve law enforcement procedures to ensure that anti-corruption legislation works in practice.

In a resource-rich country like Azerbaijan, revenue reporting is vital in combating corruption. In this respect, the country continues to score well. In 2007 the State Oil Fund of the Republic of Azerbaijan (SOFAZ) received the UN Public Service Award in the category of "Improving transparency, accountability and responsiveness in the public service". The EITI Board also designated Azerbaijan as EITI compliant on 16 February 2009 with re-validation due within 5 years. The decision was based on the prompt corrective measures adopted in relation to the formalisation of a multi stakeholder group and the adoption of a work plan. The EITI Board confirmed Azerbaijan's achievement of these conditions at its meeting in Oslo on 9 February 2010.

According to Human Rights Watch and other organisations, the government's human rights record is poor and many serious shortcomings are reported, most notably in the area of freedom of the media and the freedom of expression.

Since Azerbaijan gained independence, its media has been transformed from a state-run system into a variety of new media outlets, both private and state-owned. The government has adopted mass media laws and registration procedures. Television remains the main source of information for most of the population.

Despite the broad range of media operating in the country, the OSCE Representative on Freedom of Media and other representatives of international community noted that the overall media environment has worsened in recent years and urged the government to end the use of criminal defamation, which is limiting media freedom. Decriminalisation of libel is needed to protect freedom of expression for members of the media and is a vital component of democratic governance.

The overall capacity of civil society organisations remains relatively low. In June 2009, parliament planned a package of amendments to the Law on Non-governmental Organisations (Public Associations and Foundations), which, if adopted, would have seriously restricted freedom of assembly and expression in Azerbaijan and threatened the development of civil society in breach of the European Convention on Human Rights, the International Covenant on Civil and Political Rights and other relevant democratic standards and commitments. Ultimately, most of the proposed amendments were withdrawn and parliament adopted a much softer version of the law.

ANNEX 2 – SIGNED BANK OPERATIONS AND PROJECT PIPELINE

Table 1: Commitments and Portfolio by Sector as of 30 April 2010

Sector	CUMULATIVE COMMITMENTS (€MM)					PORTFOLIO (€MM)		
	No. of Projects	Total Project Cost	EBRD Funding	% of Total EBRD	Disbursed	No. of Projects	Portfolio	% of Total Portfolio
ICA	21	446	167	16%	50	13	154	23%
Agribusiness	6	22	12	1%	12	5	11	2%
Equity Funds	4	18	5	0%	5	1	1	0%
Manufacturing and Services	6	393	143	14%	25	4	139	21%
Property and Tourism	3	10	4	0%	5	1	0	0%
TIM	2	4	3	0%	3	2	3	0%
Financial Institutions	67	283	171	16%	152	59	125	19%
Bank Equity	3	12	9	1%	9	3	9	1%
Bank Lending	35	173	97	9%	78	24	72	11%
Insurance & Financial Services	4	4	4	0%	4	3	2	0%
Small Business Finance	25	93	61	6%	61	29	42	6%
Energy	19	4,663	560	53%	550	5	289	44%
Natural Resources	16	4387	347	33%	371	3	134	20%
Power & Energy	3	276	213	20%	179	2	155	23%
Infrastructure	7	249	152	14%	143	3	95	14%
MEI	1	81	17	2%	18	0	0	0%
Transport	6	168	135	13%	125	3	95	14%
Country Total	114*	5642	1050	100%	894	80	663	100%

* including 9 TFP transactions

Table 2: Commitments and Portfolio by Class and Investment Type as of 30 April 2010

Class / Type	CUMULATIVE COMMITMENTS (€MM)					PORTFOLIO (€MM)			
	No. of Projects	Total Project Cost	EBRD Funding	EBRD % of Total	Disbursed	Portfolio	% of Portfolio	Undrawn Commitment	Operating Assets
Private	103	4650	650	62%	534	414	62%	153	261
Public	11	991	400	38%	360	249.1	38%	64	185
Country Total	114*	5642	1050	100%	894	663.1	100%	217	446
Sovereign	9	519	362	34%	319	249.1	38%	64	185
Non-sovereign	105	5122	688	66%	576	414	62%	153	261
Country Total	114*	5642	1050	100%	894	663.1	100%	217	446
Debt	100	5589	1012	96%	857	637	96%	216	421
Equity	14	53	38	4%	37	26	4%	1	26
Guarantee	-	-	-	-	-	-	-	-	-
Country Total	114*	5642	1050	100%	894	663	100%	217	446

* including 9 TFP transactions

Table 3: Project Pipeline as of 30 April 2010

Sector	EBRD Funding (€MM)	% of Total EBRD	No. of Projects	% of Total No. of Projects
ICA	114.3	54.2%	5	27.8%
Agribusiness	1.2	0.56%	2	11.11%
Equity Funds	0	0.00%	0	0.00%
Manufacturing and Services	45.3	21.45%	2	11.11%
Property and Tourism	0	0.00%	0	0.00%
TIM	67.9	32.18%	1	5.56%
Financial Institutions	44.7	21.17%	11	61.11%
Bank Equity	8.1	3.83%	2	11.11%
Bank Lending	21.5	10.19%	4	22.22%
Insurance & Financial Services	0	0.00%	0	0.00%
Small Business Finance	15.1	7.15%	5	27.78%
Energy	40.0	18.96%	1	5.56%
Natural Resources	0.0	0.00%	0	0.00%
Power & Energy	40	18.96%	1	5.56%
Infrastructure	12.0	5.69%	1	5.56%
MEI	0	0.00%	0	0.00%
Transport	12.0	5.69%	1	5.56%
Country Total	211.0	100.00%	18	100.00%

ANNEX 3 – TAM AND BAS PROGRAMMES

The TAM and BAS programmes support economic transition by achieving enterprise change in potentially viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services in the Bank's countries of operations.

1. TAM and BAS Programmes

1.1 Previous TAM Experience

TAM supports the introduction of international best practice in small and medium-sized enterprises with the potential of becoming future leaders in their market through the introduction of international advisors from developed countries with 15 to 20 years of professional experience in the specific business sector. TAM projects typically last around 18 months.

Since inception in 1998, TAM has received a total of €2.1 million in donor funding for projects in Azerbaijan. The largest donors to TAM have been the EU, the ETC Fund, the Shareholders Special Fund and Ireland. Additional funding came from Taipei China, South Korea, the Netherlands, Italy, the UK, France, Germany, Belgium and Switzerland. The programme has carried out 32 projects throughout Azerbaijan of which 12 are still in progress. Three of these are crisis response programmes. Companies assisted operate mainly in the food manufacturing, IT and electrical equipment industries.

1.2 Previous BAS Experience

BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on both the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.

Since inception in 2002, BAS Azerbaijan has received a total of €3.6 million in donor funding. The main donors have been the EU, Canada and the Bank's ETC Fund. Additional funding came from the Shareholders Special Fund and Austria. The programme has undertaken a total of 517 projects with MSMEs, engaging 92 consultants (92% of which were local). Projects aimed at market analysis and planning have been the most common type among all the projects carried out in Azerbaijan. The industry spread of enterprises assisted has been wide, with food and beverages and retail/wholesale distribution among the most common sectors.

BAS assists smaller enterprises. More than 87% of the projects are with enterprises with less than 50 employees. BAS has focused on facilitating rural development. More than 40% of the projects were located in rural areas outside Baku. BAS also implemented a specific Women in Business Programme targeted at helping female entrepreneurs boosting their businesses through training and advisory services. In addition to projects, BAS has undertaken a number of market development activities

geared towards the development of management and marketing skills of local MSMEs and consultants.

1.3 Linkages with Banking

To date, four TAM/BAS-assisted companies in Azerbaijan have attracted 6 investments from the Bank totalling €23.2 million. At the same time, TAM/BAS companies received 5 investments amounting to €4 million from local financial intermediaries through Bank extended credit lines. Sixty-eight companies attracted investments of €34.4 million from non-Bank related sources.

2. MSME and Consulting Sectors

2.1 MSME Sector

Azerbaijan's economy is dominated by the export-orientated petroleum and gas sector. Due to the strong focus on hydrocarbon resources, the pace of large-scale privatisation remains slow and delays in the restructuring process hinder the development of the MSME sector. As indicated by the Bank's 2009 Transition indicators, competition policy requires further attention to ensure a level playing field for all businesses. Official figures on the MSME sector are not freely available, but a recent study by the World Bank suggests that more than 80% of active firms are either of small or medium size.² However, due to the large monopolisation, a significant part of the economy is controlled by a small number of companies. The total share of employment of the MSME sector is estimated at less than 25%. In addition, World Bank research indicates significant discrepancies between the urbanised areas around Baku and the Absheron Peninsula and more rural areas. Approximately half of all MSMEs are located in the capital.

A number of business organisations officially represent the MSME sector. Major stakeholders include the National Fund for Support of Entrepreneurship, the National Confederation of Entrepreneurs and the Azerbaijan Republic Chamber of Commerce. However, they usually tend to focus on the needs of SMEs, while MSMEs remain underrepresented. The Azerbaijan Bank Training Centre, established with support of the European Union, appears to be more supportive in the development of the MSME sector and provides a variety of training courses and other business services. Taking into account the preponderance of the resource sector, the development of the knowledge economy is moderate and the World Bank's Knowledge Economy Index (KEI) ranks Azerbaijan amongst the lowest in the region and below the transition country average. Penetration rates in the ICT sector remain low and firms' usage of electronic communication is limited by regional standards. Major problems also remain in the areas of economic incentives, innovation and education. Tertiary education enrolment rates are low and MSMEs suffer from the lack of technological and managerial skills. Azerbaijan is ranked 51st in the 2009/2010 Global Competitiveness Report. This is a significant improvement compared to the previous report by 18 places, however, as outlined above, the competitiveness of the MSME sector remains restrained by the monopolised economy.

² Data refers to firms surveyed by the World Bank Enterprise Survey 2009 only. Small enterprises are categories as firms employing 5-19 employees, while medium-sized enterprises are defined as firms employing 20-99 employees.

2.2 Government Support to MSMEs

The authorities recognize the importance of MSMEs for job creation and have increased efforts to diversify the economy and to develop non-oil industries in the past years. Key priorities include agribusiness and tourism, as well as regional development. SME policy is incorporated into the Department of Entrepreneurship Development in the Ministry of Economic Development. A National Fund for Support of Entrepreneurship has been established in order to facilitate access to finance for SMEs. Overall, however, according to the latest EU Progress Report, little progress has been made with regard to MSME development in recent years and it appears that the credit lines provided remain insufficient and information on the programme inadequate. The Azerbaijan Export and Investment Promotion Foundation (AzPromo), established by the Ministry of Economic Development and supported by UNDP, plays an active role in supporting the economy's export potential, primarily by providing services and training to SMEs and by advising the government as how to facilitate business operations. The National Employment Strategy for 2006-2013 also incorporates some elements of MSME development and focuses in particular on vocational education and training. Furthermore, a draft state programme on entrepreneurship development in the Republic of Azerbaijan 2007-2012 has been prepared but has not yet been fully implemented.

2.3 Donor Support to MSMEs and Consultancy Sector

A number of international donors support the MSME sector in Azerbaijan. USAID has supported a number of programmes aiming at strengthening financial intermediation services to the MSME sector and plays an active role in providing technical training in the non-oil economy. The World Bank and IFC in particular focus on the expansion and diversification of access to financial services to MSMEs. AzPromo receives support from both UNDP and the EU. In addition, within the ENP framework, the EU assists the government in developing a comprehensive legislative and regulatory framework for SMEs. The promotion of SMEs is also a major focus of GTZ and KfW, which has supported Access Bank since 2002.

2.4 Consultancy Market

The number of business service providers has increased and the quality has improved. Yet the consultancy market remains highly fragmented and relatively weak. Many providers still lack specialisation and are focusing on larger cities. Many consulting firms offer little value to their clients in terms of international market insights, innovation or actionable strategies which may explain why demand for advisory services is low. However, due to the good results achieved by programmes such as TAM/BAS, demand is increasing.

The business advisory services currently most demanded are fairly basic business services including market analysis, planning and management information systems. There is a clear need however to promote more complex consultancy services having lasting effect on the companies' performance.

3. TAM/BAS Strategic Orientations

3.1 TAM Objectives

In light of the specificities of the local consultancy market, business advice from international experts in certain areas is highly relevant in Azerbaijan. Based on the challenges of the Azerbaijani economy, TAM will concentrate on the following types of projects:

- Technology transfer through introduction of foreign business partners;
- Organisation and strategic planning to improve management professionalism;
- Sales and marketing; and
- Corporate governance, financial controlling and audit.

TAM will continue to deliver assistance in these areas as well as focus on energy efficiency and environmental issues. In terms of sectors, food manufacturing, and agribusiness are seen as those with the largest potential. The extent of the programme's activities will depend on funding availability.

3.2 BAS Objectives

MSMEs stakeholders unanimously believe that Azerbaijan entrepreneurs could benefit strongly from the help of business advisory services.

Given the specificities of the local advisory market, the BAS grant will remain the key component of BAS. A Grant Guideline Matrix is proposed in Azerbaijan in order to prioritise intervention, avoid duplication of efforts from international donors and focus on the areas where local businesses have needs and no access to advisory services. Depending on funding availability, higher grants will be allocated according to:

- Size of enterprise: Higher grants will be given to smaller enterprises outside of the capital city.
- Geographic location: Higher grants will be given to enterprises outside of the capital city throughout the country.
- Type of advisory service: Higher grants will be given to support projects which (a) have a lasting effect on the companies' performance; (b) are more complex (for instance projects involving the environment and/or health and safety components as well as projects contributing to improved efficiency and/or cost reduction by introducing appropriate software) and (c) involve consultancy services underrepresented in the market (for example energy efficiency, HR-related projects and engineering projects).

BAS assistance at the enterprise level will be complemented with the following market development activities in order to maximise the programme's transition impact in Azerbaijan:

- Visibility and dissemination: BAS will take steps to promote the use of business advisory services, especially in more rural regions where consultancy is not considered as an option. BAS will also stimulate demand for more sophisticated consultancy services by disseminating successful case-studies to entrepreneurs.

BAS will organise more seminars related to international best practices to demonstrate the potential benefits for local entrepreneurs.

- MSME and consultancy training: Capacity building for consultants will be organised to help broaden the country's supply and quality of local advisory services. The BAS team will continue to address existing gaps in the supply of advisory services by offering specific training programmes or workshops (for example, in branding, targeted to both consultants and MSMEs) or by assisting local consultants in developing new consultancy products (for example export potential assessment services).
- Support to and development of existing local institutions: BAS will continue supporting local institutions that contribute to the development of MSMEs and the business advisory services market. This will include supporting the introduction of international standards for management consultancy as well as international best management practices and business innovation.

3.3 Cross-cutting Issues

In order to address cross-cutting issues that are pertinent to MSME development, TAM/BAS will focus on projects in the regions outside of the main cities. Moreover, TAM/BAS will also support measures that increase the participation of women in the private sector.

3.4 Contribution to Policy Dialogue

By thoroughly analysing the business environment and clearly identifying the challenges faced by the MSME sector, TAM/BAS further strengthens the Bank's policy dialogue toolkit. Future challenges for the government (among others) are identified as improving efficiency of the tax administration, faster granting of construction permits and improving access to land, reducing trade barriers and continuing to fight corruption. In business perception, access to credit for MSMEs remains a major issue of concern following the financial crisis. TAM/BAS will continue to support the Bank's policy dialogue with the authorities and support other initiatives promoting MSME development.

ANNEX 4 – ASSESSMENT OF COMMERCIAL LAWS

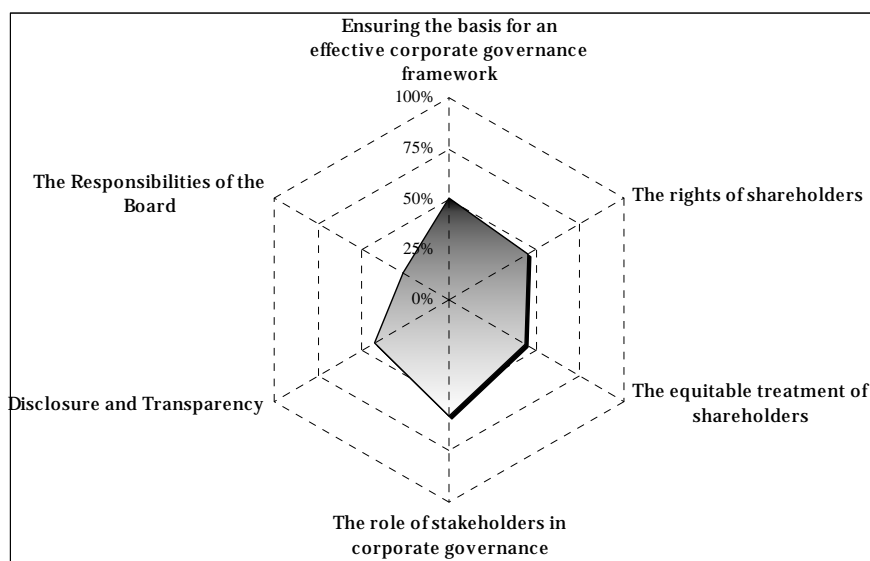
The Bank has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, secured transactions and telecommunications. In 2010, assessments will be conducted for the first time in the judicial capacity and procurement focus areas. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Azerbaijan, accompanied by critical comments from the Bank’s legal experts who have conducted the assessments and other research in the relevant areas.

Company Law and Corporate Governance

The corporate governance framework in Azerbaijan is contained essentially in the Civil Code (2000), which incorporated the provisions of the Company Act, repealed in 2004. The Civil Code was then substantially amended in 2008 in order to introduce board member duties and regulate related party transactions. In 2004 new provisions came into force improving the corporation governance of banks: a new Law on Banks and a Regulation of the National Bank of Azerbaijan on Regulation and Implementation of Corporate Governance Standards in Banks. A corporate governance code is currently being developed and should be adopted in 2010. The code includes recommendations on voluntary practices applicable to joint stock companies (both listed and non-listed), state owned enterprises, banks and insurance companies.

Joint stock companies having more than 50 shareholders are required to be organised under a two tier system, where the management board is appointed by the general shareholders meeting unless the company’s by-laws grant this authority to the supervisory board.

Quality of corporate governance legislation – Azerbaijan (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the ‘web’, the more closely the corporate governance laws of the country approximate these principles

Source: EBRD Corporate Governance Sector Assessment, 2007 assessment

According to the results of the Bank’s 2007 Corporate Governance Sector Assessment³, under which the quality of corporate governance legislation in force in November 2007 was assessed, Azerbaijan was found to be in “very low compliance” with the OECD Principles of Corporate Governance. The assessment was completed before the 2008 Civil Code amendments entered into force, provision which will have contributed to improving the relevant framework. On the other hand, many flaws still remain. When considering the effectiveness of corporate governance legislation, the 2005 Bank’s Legal Indicator Survey⁴ revealed that the major shortcomings which might undermine the effectiveness of corporate governance in the country are the lengthy judicial proceedings and the weak institutional environment: in particular the low quality of company information and the limited competence and experience of courts, prosecutors and the market regulator.

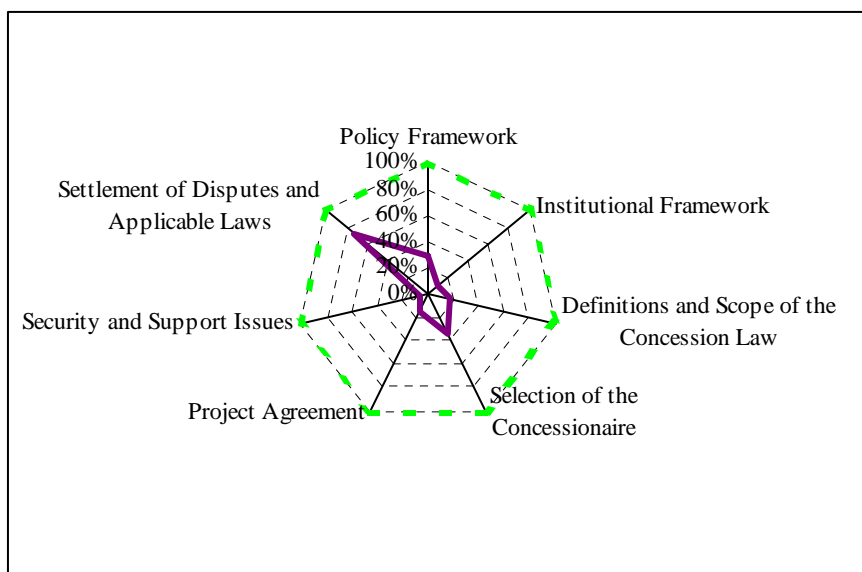
Authorities should consider strengthening the capacity of courts and of the securities commission and improving the company law framework, especially on the role and responsibilities of the board, protection of minority shareholders, disclosure and related party transactions.

Concessions

There is no policy, legal or institutional framework for public-private partnerships and concessions in Azerbaijan.

Azerbaijan is one of the very few countries of operations that do not have a concession law. The Civil Code and the Law on Protection of Foreign Investments refer to concessions, but neither of the acts regulates the subject. The Civil Code uses the term more in the meaning of an agency agreement and defines it as a “commission”. The Law on Protection of Foreign Investments contains an article relating to concession agreements as rights granted by the Cabinet of Ministers of Azerbaijan, however the meaning of the term ‘concession’ is limited to natural resources only and the article applies solely to foreign investors.

Quality of concession legislation – Azerbaijan (2007/8)



Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the ‘web’, the more closely concessions laws of the country approximate these standards.

³ For more information see: <http://www.ebrd.com/country/sector/law/corpgov/assess/index.htm>

⁴ For more information see: <http://www.ebrd.com/country/sector/law/corpgov/lis/index.htm>

In other words, while the laws of Azerbaijan govern privatisation as the outright sale of assets to the private sector, and public procurement, they are largely silent on public works and services concessions as a way of structuring public-private partnership relations.

The laws on transfer of state enterprises has some limited relevance, as they relate to the right of use of certain public assets based on management contracts, by way of preparation for future privatisation.

The 2007/8 Bank assessment of concessions laws throughout the countries of Bank operations revealed that the laws regulating concessions in Azerbaijan are in “very low compliance” with the international standards of best practices (see chart above).

Insolvency

Bankruptcy and insolvency in Azerbaijan are governed by the Insolvency and Bankruptcy Law 1997 and the Civil Procedure Code 1999 (collectively, the “Insolvency Law”). The Insolvency Law scored “low compliance” when compared with international standards in the Bank’s 2009 Insolvency Sector Assessment. This result indicates that there has been no material improvement in the Insolvency Law since the last Bank Assessment was conducted in 2006. The Insolvency Law is deficient in most areas, with the exception of treatment of creditors.

The law treats creditors relatively fairly. It allows creditors to participate in insolvency proceedings and treats the claims of creditors in each class on an equal basis. Creditors also have adequate opportunity to seek redress from the court as to matters with which they disagree. However, this is little comfort to creditors in the overall framework of insolvency proceedings, however, given the critical weaknesses evident elsewhere in the law.

In the core area of treatment of estate assets, provisions on the avoidance of suspicious pre-bankruptcy transactions are particularly unsatisfactory. These provisions are vague and fail to provide the necessary detail to create a predictable avoidance regime. Provisions for commencement of an insolvency proceeding are also weak. They do not provide for a “balance sheet” test for insolvency and give no guidance to creditors as to how they may establish the debtor’s insolvent condition (such as proving a failure to satisfy demand to pay an undisputed debt). The process of converting proceedings from liquidation to reorganisation, and vice versa, is also unclear.

The Insolvency Law is especially deficient in addressing the issue of reorganisation. There is currently no provision for reorganisation financing and provisions relating to a plan of reorganisation are inadequate. Specifically, there is no requirement that creditors be informed as to the contents of a proposed plan, and the percentage of creditors required to approve a plan is unclear. Further, there is no restriction on voting by insiders of the debtor, and there is no provision for “cram down” of a plan over dissenting creditors if there is a sufficient vote of approval by other creditors. The law also lacks any provision to prevent bona fide approval of a plan by creditors from being overturned by the court.

The 2009 Bank Assessment further reveals that the legislative framework relating to insolvency administrators (sometimes referred to as trustees) is extremely weak and should be addressed. The Assessment included a separate analysis of the legal and

regulatory framework for insolvency administrators in each of the Bank's countries of operations. For Azerbaijan, this analysis revealed that the Insolvency Law is in "very low compliance" with international standards in this area. For example, the law does not contain provisions requiring the registration or licensing of insolvency administrators and the provisions relating to the appointment (or review of an appointment) of insolvency administrators are inadequate. Similarly, there are no provisions relating to professional work standards, ethical rules or discipline for insolvency administrators.

Judicial Sector

The court system in Azerbaijan comprises the Constitutional Court, the Supreme Court, appellate courts, district economic courts as well as district and municipal courts invested with general jurisdiction. The Supreme Court is the highest judicial body in civil, criminal, administrative and other cases that are referred by the general courts, and exercises general control over the activity of first instance and appellate courts. For economic disputes appeals lie from the district economic courts to the appellate courts. Judges of the Supreme Court and appellate courts are nominated by the President and approved by the Parliament. Judges of the district and other lower-level courts are appointed by the President, on the recommendation of the Judicial Legal Council. This body is also responsible for judicial training and management. Whilst in principle an independent body, it is answerable to the Ministry of Justice.

Although the constitution provides the legal basis for an independent judicial system, lack of impartiality and independence of the courts are considered to remain a significant problem in Azerbaijan. Corruption is regarded as one of the main obstacles to the proper functioning of the judiciary in the country, and the influence of the executive government on court processes and decision-making is considered to be pervasive. Azerbaijan ranked 143rd among the 180 surveyed countries in the Transparency International 2008 Corruption Perceptions Index. The difficulties associated with the court system accounts for the courts not being widely used for the resolution of business disputes. Only 6% of companies surveyed in BEEPS IV had been to court as a plaintiff or defendant in the preceding three years.

In recent years, efforts have been made to improve the functioning of the judiciary. Various judicial reform programmes have seen progress made in the training and selection of judges for office, and exams are now held for judicial candidates, however the selection process is believed to remain subject to political influence.

Public Procurement

Public procurement in Azerbaijan is regulated by Public Procurement Law (the PPL), adopted in 2001, which covers national and local government procurement as well as procurement by any entity with at least 30% state ownership.

Azerbaijan's public procurement framework has been partially modelled on the 1994 UNCITRAL model law with significant local supplements. However it has not been updated to incorporate current international best practice.

The framework makes provision for tendering procedures and direct agreement, but not for negotiated procedures. The default position is that procurement will occur by open tendering, with the sole award criterion being the lowest price.

The eligibility rules and qualification criteria are generally in line with international best practice. However it is unclear whether domestic preferences are allowed. The public procurement contract notices and tender documents are not available on the Internet. Tender documents must be purchased, at prices which can reach 1.5% of the contract value. The law provides flexibility on the questions of tender currency and language. Contracting entities are permitted to make their own arrangements on deadlines.

The PPL makes no distinction between the rules for lower and higher-value procurement. The public procurement procedures in this regard are complex and inflexible, and little attention is given to the structure of management of contracts. The PP framework does not address the issues of efficiency or economy of process. Electronic communication and modern transmission of information is not allowed. The tender's technical specifications are set to the advantage of the domestic market.

The remedies system is scarcely regulated and considered the weakest point of the framework. In general, the Azerbaijan's public procurement legal framework can be characterised as bureaucratic and wanting in accountability structures.

Secured transactions

Taking security over property in Azerbaijan is severely hindered by the existing legal provisions as well as the lack of functioning institutions. Without comprehensive and thorough reforms, it is difficult to see how the secured credit market can further develop.

Security rights over movable and immovable assets in Azerbaijan are primarily governed by the Civil Code, which entered into force on 1 September 2001, and the Mortgage Law of 2005. The 1998 Pledge Law was repealed at the end of 2006 and the progressive features that it contained have now disappeared, for example: the possibility to take a mortgage over the whole or part of a business' enterprise; the possibility to charge assets that would be generally described or future in the charging agreement; the possibility for the chargor to sell some of the charged assets in the ordinary course of business with the buyer acquiring them free from the charge (essential if a charge is taken over the whole enterprise); and the possibility for the chargeholder in case of default of the chargor to take possession of the charged assets.

The Civil Code makes a fundamental distinction between pledges and mortgages.

Pledges can be of various kinds: the charged assets can (but need not) be given in possession to the creditor, and can cover intangible assets (e.g. account receivables). Pledges are mostly not registered.

Mortgages must be registered in the relevant official registry. For movable assets, this refers to existing asset-based registries, such as motor vehicles registry, ship registry, etc.

In a survey conducted by the Bank in 2003 on enforcement of a charge over a piece of equipment, Azerbaijan's legal regime was among the least efficient, allowing the secured creditor to recover little of its secured debt, after a lengthy and complex procedure.

A USAID funded project launched in 2005 is proposing radical changes to the system by the adoption of a new Secured Transactions Law (along the lines of the US UCC

Article 9) and the creation of a notice filing system. However, it does not seem that this initiative has been successfully concluded.

As far as real estate is concerned, the system had suffered many years of severe uncertainty due to the lack of a unified, centralised, and efficient immovable property register. However, all databases have now been transferred to one single entity, the State Register Service, which is exclusively responsible for registering transfer of titles, mortgages, and other real property rights. It is unclear whether (i) transfer of data has been accompanied with harmonisation and computerisation to resolve conflicts and allow easy searching and (ii) the service is able to provide users – in particular lenders who are increasingly developing mortgage sector – an efficient and reliable system. The 2005 Mortgage Law has added some additional certainty in many important legal and institutional aspects. Nevertheless, the legal position for taking mortgages (and also for taking pledges) remains far from clear as do the requirements and procedures for registration.

The 2005 Mortgage law is a relatively modern law, which provide the basics of a mortgage system in the context of a relatively flexible and market-oriented approach, allowing for parties to tailor their transactions as they deem fit. It also makes attempts to address some specific, complex issues facing transition economies, such as that of financing constructions projects. Lenders are generally confident about the legal regime for taking, registering and enforcing mortgages, although experience in enforcement of a mortgage is still very limited. The key issues appear to be the lack of consistency among the various sources of law, the problematic registration of real property titles, the regime applicable to building in constructions, the enforcement of mortgages, and the costs for transfer of mortgage loans.

Securities Markets

In Azerbaijan, the basic legislation on the securities markets is contained in Chapter 54 of the Civil Code (2000), which was significantly amended in December 2003 in connection with the repeal of the Law on Securities (1998). Chapter 54 contains provisions on types, issuance and circulation of securities, prospectus and disclosure requirements, the role and functions of the stock exchange and other participants in the securities markets. Other important laws are the Law on Protection of Rights of Investors in the Securities Market (2000) and the Law on Investment Funds (1999).

The securities markets regulator is the State Securities Committee (SSC), while the banking and insurance sectors are supervised respectively by the National Bank of Azerbaijan and the Ministry of Finance. The SSC has the authority to adopt regulations setting out mechanism and detailed rules and guidance on relevant matters in accordance with the provisions of the Civil Code.

In 2007, the Bank benchmarked the securities markets legislation in Azerbaijan against the Objectives and Principles of Securities Regulation published by IOSCO. The assessment showed that national securities markets legislation is in “low compliance” with international standards. In order to understand how securities market legislation works in practice, in the same year the Bank undertook a Legal Indicator Survey asking practitioners in the region to comment on a hypothetical case study. The Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator. The Survey revealed that IPOs are not a source of financing for companies in Azerbaijan. Information in the prospectus is limited and its quality varies on the

reputation of issuer and auditor. The audit profession is generally poorly regulated and local auditors often provide services of inadequate quality. The SSC examines prospectuses in a rather formal manner and does not have the resources to verify the information therein contained. Doubts are also expressed about the protection offered to investors by the SSC because of its limited capacity and resources, the inadequacy of available sanctions and the absence of international instruments on cooperation in the securities market in other jurisdictions.

The legislator should carefully assess the compliance of national legislation with international standards and consider improving both the framework and the capacity of institutions in effectively implementing the legislation.

Telecommunications

The communications sector in Azerbaijan is currently governed by the Law of the Republic of Azerbaijan on Telecommunication, 2005, and is regulated by the Ministry of Communications and Information Technologies (MCIT). MCIT was established in February 2004 as both sector policy-maker and regulator.

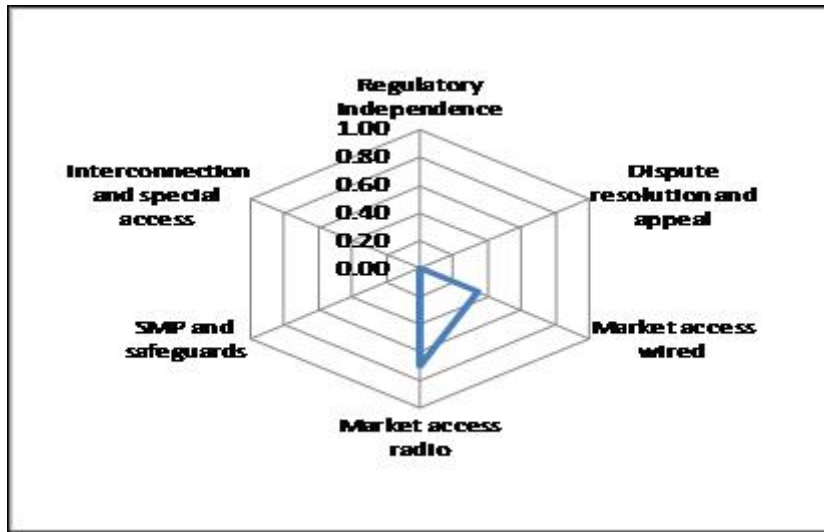
Since regulatory functions are carried out by MCIT, which also plays a significant role as an owner of shareholdings in no less than five operators (including 100% of dominant incumbent Aztelecom), it is clear that regulatory independence, as understood in the WTO reference paper, does not exist. The authorities, mostly through MCIT, currently keep a tight control over the sector. This control, together with MCIT's conflicting role as regulator and policy-maker significantly distorts the market and provides scope for political influence on most commercial operations in the sector. Most types of telecommunication services are formally open to competition. Three operators are currently licensed to provide international voice traffic.

Persistent conflict in MCIT's roles as policymaker, regulator and shareholder continues to stymie sector growth and retard development. While there has been discussion of a new communications law and efforts are being made to align legislation with EU principles, the continuing absence of a properly enforced, international standard, legislative framework will make it very difficult for meaningful competition to emerge. Additionally, despite the entrance of a number of alternative operators to the market, prospects for competition continue to be limited due to ongoing exclusivity of Aztelecom, allied to state control over infrastructure and tendencies towards high interconnection fees.

Although Azerbaijan admittedly has some distance to go before the country can meet all the requirements of the WTO reference paper, some positive points should be mentioned. The establishment of an independent regulatory body, which is eagerly awaited, is understood to have the support of MCIT, although a firm plan or timetable has yet to appear. Similarly, the State Property Committee has been charged to privatise Aztelecom. Going forward, a significant difficulty for Azerbaijan is tariff rebalancing. Local tariffs, which are managed by a tariff council that includes the Ministry of Economics as well as other ministries, are being kept at a low level in order to make them affordable. As long as local tariffs are kept artificially low and cross-subsidised by other types of revenues, in particular from international call revenues (which are still subject to special rights), this key component of full liberalisation will remain out of reach.

In a 2008 assessment of the communications sector of Countries of Operation the sector regulatory regime in Azerbaijan was deemed to have “Low Compliance” when measured against international best practice⁵.

Quality of telecommunications regulatory frameworks – Azerbaijan (2008)



Note: The diagram shows the combined quality of institutional framework, market access and operational environment when benchmarked against international standards issued by the WTO and the European Union. The extremity of each axis represents an ideal score of 100 per cent, that is, full compliance with international standards. The fuller the “web”, the closer the overall telecommunications regulatory framework of the country approximates these standards.

⁵ For more information see: <http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm>

ANNEX 5 – ENVIRONMENT

Azerbaijan has nine different climatic zones including 4,000-metre mountain ranges, subtropical zones and deserts. It is blessed with a rich biodiversity covering over 4,200 floral species (270 of which are estimated endemic to Azerbaijan) and 18,000 faunal species. Azerbaijan's Red Book lists 140 rare and endangered species of plants and 108 faunal species. The country currently counts 8 national parks, 11 state nature reserves and 24 sanctuaries covering major ecosystems.

Azerbaijan's environmental policy is enshrined in a number of strategies. The 1998 National Environmental Action Plan (NEAP) prioritises environmental problems into 32 objectives. Among others it lists industrial pollution, rapid decrease of the sturgeon population, deteriorating water quality, loss of fertile agricultural land, loss of biodiversity and damage to the Caspian coastal zone as key environmental concerns. The 2001 National Environmental Health Action Plan approaches environmental management from a health angle. The 2001 State Programme on Poverty Reduction and Economic Development recognises how environmental conditions and poverty are interlinked. The 2003 State Programme on Environmentally Sustainable Socio-Economic Development 2003-2010 covers the main axes of sustainable development, includes an action plan and puts the Ministry of Ecology and Natural Resources (MENR) in charge of guiding implementation. These last three documents restate and add to the environmental priorities listed by the NEAP, without suggesting the order in which they should be implemented. Although most of the NEAP's objectives have not been reached, the overall direction remains valid.

Azerbaijan continued to implement its 2006-2010 environment state programme. The authorities took steps to improve the environment in the Absheron peninsula including among others through the development of a waste strategy for Greater Baku.

The legal framework has largely been overhauled. The 1999 Law on Environmental Protection is the main legislative act governing the environment. Among others, it regulates the use of natural resources, establishes the polluter-pays principle and partially bridges the gap with international environmental standards. It also enhances the role of public awareness and defines environmental review procedures. The 1996 Handbook on Environmental Impact Assessments (EIA) outlines the basic procedures for conducting an EIA. Although these procedures are broadly in line with international practice, a number of key provisions (such as a definition of activities that require an EIA or a requirement to analyze alternatives) are currently missing. While much of the legal framework is in place, it needs to be developed further particularly in terms of implementing legislation.

Azerbaijan has ratified virtually all main international and regional environmental treaties and protocols. Although Azerbaijan's performance has sometimes been uneven, the country is noted for its active participation under the Caspian Environment Convention and the Caspian Environment Programme. Azerbaijan also enhanced its cooperation with the EU on a wide range of environmental issues including climate change and sustainable development.

The MENR, established in 2001, is charged with formulating and implementing Azerbaijan's environmental policy. It is also responsible for developing environmental protection measures, screening projects for potential adverse environmental impacts, monitoring compliance with environmental legislation, imposing sanctions and implementing an environmental permit system. Broader problems such as waste

management and land decontamination and rehabilitation are tackled with the support of other actors. As a result many other government entities play an important role in environment. For instance, the Ministry of Economic Development implements the Baku Clean City Initiative and oversees among others the construction of the waste incinerator. The Ministry of Emergency Situations deals with hazardous waste management. The Ministry of Agriculture is responsible for land improvement and irrigation. In addition many other government bodies play an indirect role. This inevitably leads to overlapping responsibilities, duplications and possible conflicts of interests. While this is to a certain extent unavoidable, further streamlining and clearer division of roles would increase operational efficiency and accountability.

Azerbaijan works closely with its development partners to address its environmental concerns. The World Bank is assisting the government to implement its Absheron Peninsula Rehabilitation Programme to clean-up of oil and chemical pollution. UNDP is preparing and implementing a number of national and regional environmental projects to improve and protect Caspian region groundwater resources and reduce environmental degradation of trans-boundary rivers. With the support of OSCE, the MNER is running the Public Environmental Information Centres (Aarhus Centres) in Baku, Ganja and Gazakh to raise public environmental awareness and promote civil society engagement in environmental protection.

ANNEX 6 – SELECTED ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010
						<i>Estimate</i>	<i>Projection</i>
Output and expenditure <i>(Percentage change in real terms)</i>							
GDP	10.2	26.5	34.5	25	10.8	9.3	6.0
Private consumption	6.9	6.3	18.9	3.8	10.0	na	na
Public consumption	4.6	1.9	16.9	27.0	18.0	na	na
Gross fixed capital formation	13.0	-0.5	15.2	3.5	17.0	na	na
Exports of goods and services	-9.0	52.7	73.7	66.6	25.8	na	na
Imports of goods and services	-9.5	-1.9	20.1	11.5	4.8	na	na
Industrial gross output	4.3	56.9	57.6	35.1	6.8	12.8	na
Agricultural gross output	5.0	7.5	0.9	4.0	6.1	3.5	na
Employment <i>(Percentage change)</i>							
Labour force (end-year)	1.7	1.1	2.3	0.7	0.5	Na	na
Employment (end-year)	1.7	1.1	3.2	1.0	0.2	Na	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	1.4	1.4	6.8	6.5	6.1	6.0	na
Prices and wages <i>(Percentage change)</i>							
Consumer prices (annual average)	6.7	9.6	8.3	16.7	20.8	1.5	5.0
Consumer prices (end-year)	10.4	5.5	11.4	19.7	15.4	0.5	6.0
Producer prices (annual average)	12.9	18.9	17.7	8.0	12.5	-19.2	na
Producer prices (end-year)	21.9	10.8	17.1	11.3	11.6	Na	na
Gross average monthly earnings in economy (annual average)	26.2	21.9	19.8	51.5	25.2	Na	na
Government sector <i>(In per cent of GDP)</i>							
General government balance ¹	1.8	2.7	0.7	2.4	17.4	6.3	na
General government expenditure	24.1	22.5	25.3	26.1	26.6	35.5	na
General government debt	18.6	14.2	10.8	7.5	6.1	8.0	na
Monetary sector <i>(Percentage change)</i>							
Broad money (M2, end-year)	32.3	16.2	168.3	105.9	38.2	1.5	na
Domestic credit (end-year)	38.4	47.1	74.7	95.0	36.8	21.5	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	8.0	6.4	11.4	15.5	15.2	17.8	na
Interest and exchange rates <i>(In per cent per annum, end-year)</i>							
Refinance rate (6 months)	7.0	9.0	9.5	13.0	8.0	2.0	na
Interbank interest rate (3 months) ²	16.6	15.3	14.3	16.1	16.6	na	na
Deposit rate	9.2	8.5	10.6	11.6	12.2	na	na
Lending rate	15.7	17.0	17.7	19.1	19.8	na	na
	<i>(Manats per US dollar)</i>						
Exchange rate (end-year) ³	1.0	0.9	0.9	0.8	0.8	0.8	0.8
Exchange rate (annual average) ³	1.0	0.9	0.9	0.9	0.8	0.8	0.8
External sector <i>(In millions of US dollars)</i>							
Current account	-2,588.0	167.0	3,707.0	9,013.0	16,425.6	6,366.2	na
Trade balance	162.0	3,299.0	7,745.0	15,224.0	23,010.4	14,583.0	na
Merchandise exports	3,743.0	7,649.0	13,014.0	21,269.0	30,584.8	21,097.0	na
Merchandise imports	3,581.0	4,350.0	5,269.0	6,045.0	7,574.4	6,514.0	na
Foreign direct investment, net	2,351.0	458.0	-1,306.9	5,102.7	545.0	146.0	na
Gross reserves, excluding gold (end-year) ⁴	1,075.0	1,178.0	2,500.0	4,273.0	6,467.0	5,200.0	na
External debt stock	3,488.8	4,345.3	4,865.9	5,835.1	6,400.0	na	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	2.0	2.0	3.8	5.8	7.7	na	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	3.6	1.3	1.1	0.8	1.1	na	na
Memorandum items <i>(Denominations as indicated)</i>							
Population (end-year, million)	8.3	8.4	8.4	8.8	8.9	9.0	na
GDP (in billions of Manats)	8.5	12.5	18.8	28.36	40.14	34.5/	41.0
GDP per capita (in US dollars)	1,050.9	1,576.8	2,508.8	3,906.1	5,603.4	4,874.1	na
Share of industry in GDP (in per cent)	38.3	49.4	57.3	59.5	58.5	50.0	na
Share of agriculture in GDP (in per cent)	10.8	9.1	7.1	6.5	5.6	6.7	na
Current account/GDP (in per cent)	-29.8	1.3	17.7	27.3	33.7	23.6	na
External debt - reserves (in \$ million)	2,413.8	3,167.3	2,365.9	1,562.1	-67.0	na	na
External debt/GDP (in per cent)	40.2	32.8	23.2	18.6	13.8	na	na
External debt/exports of goods and services (in per cent)	82.4	52.2	35.5	26.3	20.2	na	na

¹ General government consolidates all levels of government, except for municipalities and state-owned enterprises, and includes the State Oil Fund and other extra-budgetary funds

² 90-day interbank offer rate in Manats, nominal.

³ In January 2006 Azerbaijan introduced a new currency denomination. One new Manat is equal to 5,000 old Manat. All data are retrospectively converted in new Manat.

⁴ By end-December 2008 there were additional foreign exchange assets of approximately \$ 11.2 billion in the State Oil Fund.

ANNEX 7 – ASSESSMENT OF TRANSITION CHALLENGES

Summary of Assessment of Transition Challenges 2009				
		Market Structure	Market Institutions	Overall
ICA	Private Equity and Capital Markets	Large	Large	Large
	Manufacturing and Services	Large	Large	Large
	Agribusiness	Medium	Medium	Medium
	TIM	Large	Large	Large
	Property and Tourism	Large	Large	Large
Financial Institutions	Banks	Large	Large	Large
	MSME	Large	Large	Large
	NBFI	Large	Large	Large
Energy	Power	Large	Large	Large
	Natural Resources	Large	Medium	Medium
	Sustainable Energy	Large	Large	Large
Infrastructure	Transport	Medium	Large	Medium
	MEI	Large	Large	Large

ANNEX 8 – TECHNICAL CO-OPERATION PROGRAMME

Technical Co-operation by Sector as of 30 April 2010

Sector	€Committed	€Disbursed
Private Enterprise	3,532,957	2,684,855
Infrastructure	6,679,973	6,159,973
Financial Institutions	14,291,205	12,195,111
Other	1,306,910	1,091,910
Grand Total	25,811,045	22,131,850

Technical Co-operation by Donor as of 30 April 2010

Donor	€Committed	€Disbursed
Austria	1,117,756	594,093
Belgium	31,917	31,917
BP	493,287	207,604
Canada	225,008	225,008
Early Transition Countries Fund	4,494,260	3,495,694
European Commission	14,066,589	13,307,484
France	25,677	25,677
Germany	296,783	296,783
Ireland	174,126	151,594
Israel	84,471	84,471
Italy	370,486	370,486
Japan	721,304	721,304
Korea	242,810	196,876
Netherlands	50,166	50,166
Norway	220,760	220,760
Shareholders Special Fund	1,571,076	774,872
Spain	305,512	122,772
Sweden	16,201	16,201
Switzerland	65,777	65,777
Taipei China	98,726	33,956
UK	335,267	335,267
US	803,088	803,088
Grand Total	25,811,045	22,131,850

Technical Co-operation by Commitment as of 30 April 2010

Commitment Nr.	Commitment Name	€Committed	€Disbursed	Stage
ITA-1993-05-05	Energy savings and efficiency improvement study	147,914	147,914	Closed
ITA-1994-06-03	Yenikend power sector - feasibility study	171,579	171,579	Closed
UKB-1994-07-10	Yenikend power sector rehabilitation - environmental assistance	54,846	54,846	Closed
KOR-1994-09-01	Yenikend power - procurement arrangements	168,370	168,370	Closed
JAP-1994-10-40	Yenikend Power - commercial management system	400,000	400,000	Closed
CAN-1995-02-04	Preparation of power sector efficiency improvement project	225,008	225,008	Closed
ECT-1995-06-06	Air navigation systems upgrading project	299,726	299,726	Closed
UKB-1995-07-12	Advisory services for telecommunications investment planning	14,168	14,168	Closed

Commitment Nr.	Commitment Name	€Committed	€Disbursed	Stage
SPA-1995-07-01	Wholesale market	55,512	55,512	Closed
JAP-1995-10-26	Wholesale market	103,454	103,454	Closed
UKB-1995-11-17	Development of secured transactions law	22,984	22,984	Closed
ISR-1996-05-01	Baku to Astara road improvement project	38,199	38,199	Closed
JAP-1996-07-16	ANS Procurement arrangements - Azerbaijan Airlines - state concern for civil aviation (AZAL)	217,849	217,849	Closed
GER-1996-06-02	Foreign investment protection law	32,267	32,267	Closed
HOL-1996-08-12	Law reform - bankruptcy legislation	11,723	11,723	Closed
UKB-1996-08-11	Law reform - bankruptcy legislation	95,642	95,642	Closed
ECT96-96-11-24	Twinning programme for SME line of credit and pre-privatisation of International Bank	910,458	910,458	Closed
ECT96-96-11-25	Institutional Development Programme for SME line of credit of Azerdemiryolbank	491,380	491,380	Closed
ISR-1997-01-01	Baku port development	46,272	46,272	Closed
ECT97-97-05-08	Development of Cost Accounting and Management Information Systems	299,012	299,012	Closed
ECT97-97-07-21	Final design of the Gazi Mammed to Kyurdamir road	353,031	353,031	Closed
IRL-1997-11-05	Trans-Caucasian rail link in Azerbaijan - project identification	49,615	49,615	Closed
ECT97-97-11-43	Multi-bank SME framework financing facility - Institutional Development Programme - Arkobank	317,781	317,781	Closed
ECT97-97-11-44	Multi-bank SME framework financing facility - Institutional Development Programme - AG Bank	435,654	435,654	Closed
ECT98-98-07-07	Final design of the Gazi Mammed to Kyurdamir road	364,162	364,162	Closed
ECT98-98-07-10	Institutional development and financial management of Baku Port	990,682	990,682	Closed
UKB-1998-08-11	TurnAround Management Programme - Salyan plastic products	12,348	12,348	Closed
UKB-1998-08-12	TurnAround Management Programme - Mingechaur Textile Company	10,839	10,839	Closed
BEL-1998-08-02	TurnAround Management Programme - Salyan plastic products	31,917	31,917	Closed
GERK-1998-08-04	TurnAround Management Programme - Mingechaur Textile Company	38,072	38,072	Closed
FRB-1998-09-03	TurnAround Management Programme - Baku Chemistry Pharmaceutical Factory	25,677	25,677	Closed
UKB-1998-09-19	TurnAround Management Programme - Baku Chemistry Pharmaceutical Factory	8,260	8,260	Closed
ECT98-98-11-45	Trans-Caucasian Rail Link: Assistance with Project Implementation	234,704	234,704	Closed
UKD-1999-04-07	Turnaround Management Programme for Azertrans JSC	9,994	9,994	Closed
UKD-1999-04-08	TurnAround Management Programme - ATEF	7,564	7,564	Closed
IRL-1999-05-04	TurnAround Management Programme - ATEF	27,289	27,289	Closed
ECT99-99-09-26	Credit advisory services - Azerdemiryolbank	59,794	59,794	Closed
ECT99-99-12-32	Preparation of tender documents, procurement assistance and supervision of works - Baku Port	393,977	393,977	Closed
GERK-2000-06-06	Azerbaijan Microfinance Bank - Feasibility Study	84,885	84,885	Closed
ECT99-2000-09-71	Azerbaijan Railways: Accounts Strengthening & Business Planning	293,515	293,515	Closed
ECT99-2000-12-73	Central Credit Advisory Services	400,723	400,723	Closed
HOL-2001-02-03	Turnaround Management Programme (TAM) - SPU "Bakkonditioner"	15,179	15,179	Closed
ITA-2001-03-02	Turnaround Management Programme - SPU Bakkonditioner	50,993	50,993	Closed
SWE-2001-05-06	FAO Framework Agreement - identification of investment opportunities in the agrifood sector	16,201	16,201	Closed
UKD-2001-10-15	Legal Advisory Services to Azerbaijan in connection with Drafting Securities Market-related Primary Laws	48,895	48,895	Closed
ECT99-2001-11-95	Trans-Caucasian Rail Link: Assistance with Project	286,993	286,993	Closed

Commitment Nr.	Commitment Name	€Committed	€Disbursed	Stage
	Implementation			
ECT2000-2001-12-18	Azerbaijan Micro Finance Bank: Pre-oper and Oper Phases	1,181,217	1,181,217	Closed
ECT98-2001-12-80	Azerbaijan Micro Finance Bank ("AMB"): Micro and Small Enterprise Credit Advisors	406,377	406,377	Closed
ECT2000-2002-04-01	Baku Port Development, Consultancy Services for PIU support	284,415	284,415	Closed
ECT99-2002-07-01	Central Credit Advisory Services	298,327	298,327	Closed
ECAZ-2002-08-01F	EU TAM Programme in Azerbaijan	396,699	396,699	Closed
ECAZ-2002-10-03F	EU BAS Programme in Azerbaijan	654,959	654,959	Closed
USTD-2002-12-01	Azerbaijan: Prioritisation of Investment Needs in Power Generation and Transmission	253,392	253,392	Closed
EIPF01-2002-12-05	Azerbaijan Micro Finance Bank (AMB)	273,990	273,990	Closed
UKD-2003-01-01	ADDY 2: Assistance with Project Preparation	49,728	49,728	Closed
NOR-2003-06-01	Developing Azerbaijan's National Oil Spill Contingency Plan	220,760	220,760	Closed
EIPF02-2003-06-01	Azerbaijan - Credit Advisory Services	298,750	298,750	Closed
USTD-2004-03-01	SOCAR commercialisation and restructuring	549,696	549,696	Closed
GER2-2004-04-02	Gazzi Mammed - Kyurdamir Road : Revisions to Designs	77,160	77,160	Closed
EIPF01-2004-05-03	Microfinance Bank of Azerbaijan (MFBA) - Regional Expansion	795,379	795,379	Closed
EIPF02-2004-05-03	Azerbaijan - Institutional Strengthening of Unibank	255,495	255,495	Closed
EIPF01-2004-09-03	TransCaucasian Rail Link, Project Mngt Consulting	132,555	132,555	Closed
EIPF03-2004-09-02	Azerbaijan - Central Credit Advisory Services Expansion	271,474	271,474	Closed
EIPF02-2004-11-07	Microfinance Bank of Azerbaijan (MFBA) Expansion	778,611	778,611	Closed
SCRF-2004-11-01F	Mortgage Registration in Azerbaijan	65,777	65,777	Closed
EIPF01-2004-12-10	MBASK - Institutional Strengthening Programme	180,324	180,324	Closed
EIPF03-2004-12-04	Hajjigabul-Kurdamir Road, Lender's Monitoring Consultant	173,325	173,325	Closed
GER2-2005-02-01	Azerbaijan: Trade Finance Advisory Services	64,400	64,400	Closed
HOL-2005-02-02	Azerbaijan - M-Pro Investment Support TC	34,987	34,987	Closed
EIPF03-2005-06-09	Baku to Samur Road: Lenders Monitoring Consultant	3,944	3,944	Closed
ETCF-2005-06-20	Assistance to the Road Transport Services Department (RTSD) in the Implementation of the Corporate Plan	400,000	80,000	Disbursing
EIPF03-2005-08-11	Central Credit Advisory Services Extension	460,870	460,870	Closed
IRL-2005-09-05	Azerbaijan ICT Programme	17,587	17,587	Disbursing
ETCF-2005-11-40	Azerbaijan: Azerdemiryolbank - Implementation of Institution Building Plan	251,472	251,472	Closed
ETCF-2005-12-44	Azeri Multi-Bank Framework Facility: MSE Credit Advisers	529,455	529,455	Closed
ETCF-2006-01-06F	TAM - REM Services	18,959	18,959	Closed
ETCF-2006-01-07F	TAM - Embawood	16,651	16,651	Closed
ETCF-2006-05-21F	TAM - Bakfem	82,830	82,830	Closed
EIPF03-2006-06-13	MBASK - IT Development and MIS Upgrade	188,287	188,287	Closed
IRL-2006-06-03F	TAM - Azerbaijan ICT	67,913	45,380	Disbursing
ETCF-2006-10-28	Azerbaijan: Azeri Multi-Bank Framework Facility - MSE Credit Advisers 2007	539,059	539,059	Closed
ETCF-2006-11-38	Unileasing - Institutional Strengthening	228,251	228,251	Closed
ETCF-2006-11-40	AzDRES Power Plant Rehabilitation Project - Health & Safety	70,000	70,000	Closed
ETCF-2006-11-41	Azerbaijan - Technical Support to Electricity Tariff Council	200,000	0	Committed
ETCF-2006-12-44F	TAM - Caspian Supplies	68,378	68,378	Closed

Commitment Nr.	Commitment Name	€Committed	€Disbursed	Stage
ETCF-2007-04-25	Azerbaijan: A)Multi Bank Financing Framework Facility - Credit Advisory Services and Institution Building; B)Medium Sized Co-financing Facility (MCFE) - Advisory Services to Participating Banks	574,336	574,336	Closed
ETCF-2007-09-43	Azerbaijan: Training for TFP Factoring	10,020	10,020	Closed
ETCF-2007-12-51	Azerbaijan MSE Credit Advisory Services - 2008	550,000	547,435	Disbursing
SPA-2008-09-05	Institution Building Programme: Millikart	250,000	67,260	Disbursing
ETCF-2008-06-20	Azerbaijan: Baku Stock Exchange Capital Markets Training	122,500	30,000	Disbursing
EBSF-2008-06-02	Azerbaijan: Baku Stock Exchange Capital Markets Training	122,500	0	Committed
EBSF-2008-07-05	Bank Resp. - Mortgage Lending Facility	23,850	23,850	Closed
ETCF-2008-07-23	Bank Resp. - Mortgage Lending Facility	23,850	23,850	Closed
AUEZ-2008-07-01F	Continuation of the BAS Programme in Azerbaijan	1,018,756	594,093	Disbursing
EBSF-2008-10-28F	TAM - AER Limited	75,000	67,037	Committed
EBSF-2008-10-29F	TAM - RT Services Ltd	75,000	42,149	Disbursing
ETCF-2008-10-34	Azerbaijan MSE Credit Advisory Services (ETC Multi-Donor Fund)	425,000	425,000	Committed
EBSF-2008-10-32	Azerbaijan MSE Credit Advisory Services (Shareholder Special Fund)	425,000	425,000	Disbursing
EBSF-2008-10-38F	TAM - Medclub	75,000	50,828	Committed
EBSF-2008-10-39F	TAM - Veyseloglu Yayjilli Gardarshlar LLC	75,000	26,674	Committed
EBSF-2008-10-45F	TAM - Ganja Textiles	75,000	40,119	Committed
KORU-2008-10-06F	TAM - Azvirt	74,440	28,506	Disbursing
EBSF-2008-11-59	Azerbaijan: Small Scale Private Health Sector Finance Assessment	23,726	23,726	Closed
TWTC-2008-11-15	Azerbaijan: Small Scale Private Health Sector Finance	23,726	23,726	Closed
EBSF-2009-01-12	Demirbank : Assistance with the implementation of SAP Software	383,500	0	Committed
ETCF-2009-01-02	Demirbank : Assistance with the implementation of SAP Software	383,500	0	Committed
ECIF-2009-06-01	Azerbaijan Financial Sector Framework - SME and MCFE Credit Advisory Services and Institution Building	550,000	140,895	Disbursing
BPSF-2009-10-01	Azerbaijan MSE Credit Advisory Services 2009-2012	493,287	207,604	Committed
TWTC-2009-10-13F	TAM - Azerbaijan Electronics (Azet)	75,000	10,230	Committed
EBSF-2009-11-149F	TAM - Baku Electronics Ltd - crisis response	47,500	36,988	Committed
EBSF-2009-12-186F	TAM-Azer-Yod LLC/Crisis Response	47,500	9,134	Committed
EBSF-2009-12-188F	TAM-Mil-Pro/crisis response	47,500	12,290	Committed
EBSF-2009-12-189F	TAM - DNS Azerbaijan	75,000	17,077	Committed
ECIF-2009-12-02	Unibank - Funding, Risk Management and Operational Enhancement	50,000	0	Committed
AEEB-2010-01-01	Unibank - Funding, Risk Management and Operational Enhancement	50,000	0	Committed
DEGT-2010-01-01	Unibank - Funding, Risk Management and Operational Enhancement	49,000	0	Committed
ECIF-2010-01-01	Rabitabank - Assistance with Internal Audit, Risk Management and development of SME financing functions	300,000	0	Committed
GrandTotal		25,811,045	22,131,850	