

Strengthening Impact of Public Spending in Azerbaijan

Capacity Building in the Field of Medium Term Expenditure

FACTSHEET



Country: Azerbaijan



Executing Agency: World Bank



Donor: Swiss State Secretariat for Economic Affairs (SECO)



Duration: 2021-2026



Total Budget: CHF 5 million (USD 5.4 million)

CHALLENGE

Fiscal policy in Azerbaijan has been volatile and has not sufficiently nurtured sustainable growth in the non-oil/gas sector. The country remains dependent on hydrocarbon revenue, which is subject to large swings. These have translated into spending booms and busts with detrimental effects on the economy. Moreover, they have led to short-term decision-making and hampered long term planning.

How can policymakers adjust public spending to be less dependent on erratic hydrocarbon revenue? How can they improve government performance and ensure a multi-year commitment of resources? And how can they strengthen the budgeting process to improve transparent medium-term planning?

Policymakers have initiated reforms to address these challenges through a series of initiatives under the Medium-term Expenditure Framework (MTEF) program. The program's implementation is supported by the World Bank and the Swiss State Secretariat for Economic Affairs (SECO).

OBJECTIVES

The objectives of the program are to strengthen the efficiency, strategic orientation and transparency of public expenditure in Azerbaijan, with the aim of enhancing impact and sustainability of public spending, as well as boost private sector development.

STRENGTHENING PUBLIC SPENDING IMPACT



Stronger fiscal discipline to improve macroeconomic forecasting over the medium term.



Better quality of infrastructure services, cost efficient and affordable asset creation and management.



Enhanced strategic direction, improved efficiency, and overall effectiveness of public spending at the sectoral level.



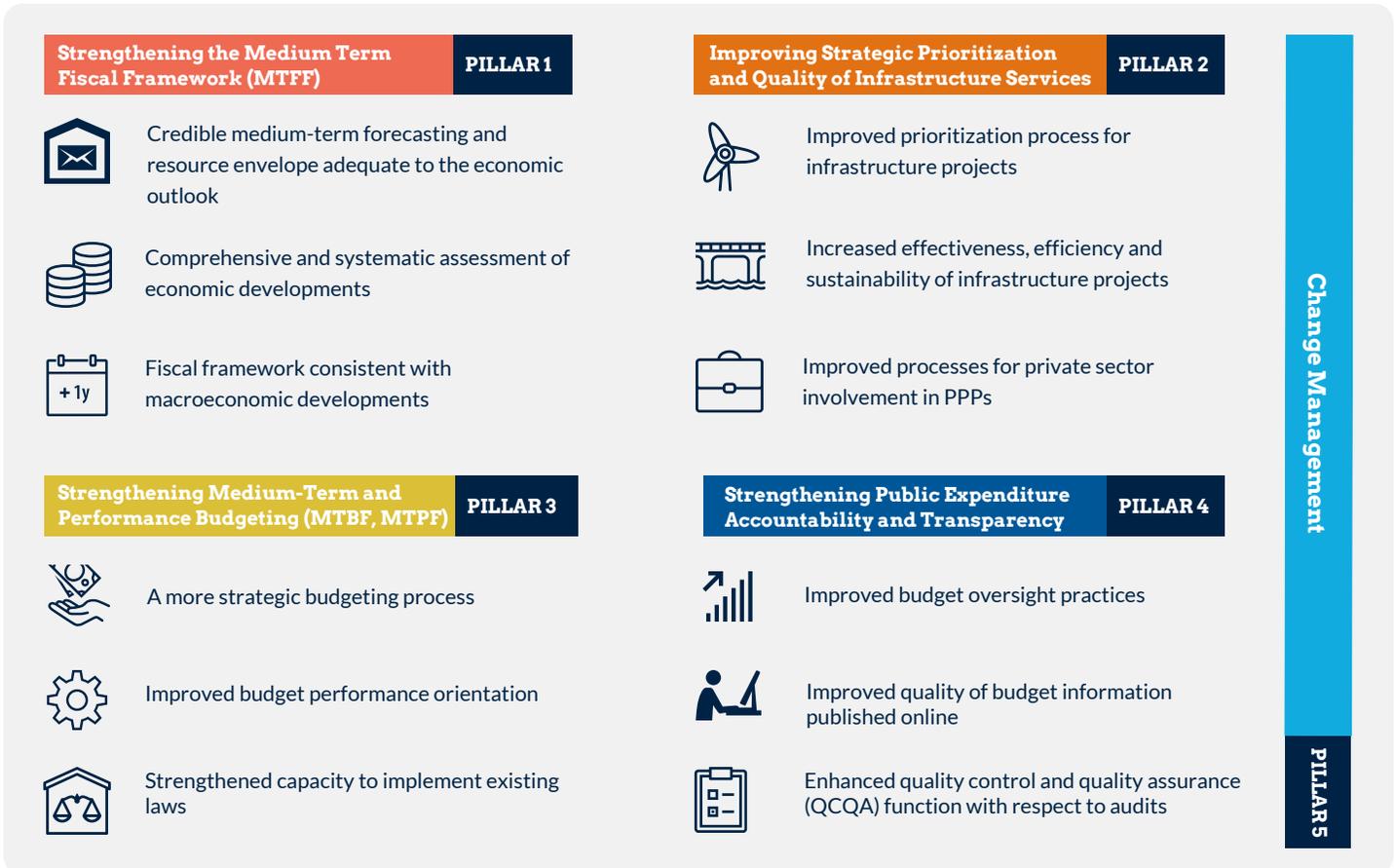
Increased budget transparency and accountability.

FIVE KEY PILLARS

The program focuses on working along four public financial management (PFM) pillars in parallel. The fifth transversal pillar on change management focuses on the 'how-to' of the reforms helping stakeholders understand the need for change and to motivate them to take action.

- 1 The first pillar on the **macro fiscal framework** targets the "big picture" and sets the top-down parameters for reforming the budgetary process. It sets macroeconomic targets to guide policy coordination, budget planning and prioritization. This will enhance the sustainability of public finances, macroeconomic stability, and allow a more strategic focus on public spending.
- 2 The second pillar aims to support the Ministry of Economy (MOE) in improving the strategic alignment of the government **investment program**, including the use of Public-Private Partnerships (PPPs), to the needs of the country. Specifically, it will seek to promote best practice in public investment management.
- 3 The third pillar aims to support the Ministry of Finance (MOF) and line ministries to improve strategic and performance orientation of the **budgeting process** by focusing on building capacity to implement existing laws and ordinances with respect to MTEF. This will include the gradual introduction of processes that link funding with results.
- 4 The fourth pillar on **transparency and accountability** will enhance the quality and timeliness of fiscal information. It will also support the Chamber of Accounts (CoA) of the country, which is central in ensuring accountability in the use of public funds.
- 5 The fifth pillar on **change management** will support the adjustment process across the program. A change management strategy will accompany the implementation of reforms that will require increased coordination and collaboration across several institutions.

The program is characterized by strong interlinkages between pillars



PROGRAM IMPLEMENTATION MODALITIES

Two committees are expected to drive, implement, steer and monitor the program to completion. The Technical Committee (TC), composed of representatives of the program’s main beneficiaries, will be responsible for the monitoring of the overall progress in program implementation, as well as for the review of products and analysis involving more than one beneficiary institution. The Steering Committee (SC) is composed of high-level representatives (Deputy Ministers) from the program’s main participating institutions – Ministry of Finance (MOF), Ministry of Economy (MOE), Central Bank, Cabinet of Ministers, and key line ministries. The World Bank and Swiss State Secretariat for Economic Affairs (SECO) will participate in the SC as full members. The MOF and MOE will jointly chair the meetings.

DEMAND DRIVEN APPROACH

This engagement has a strong demand-driven approach. The program is country led and works in collaboration with international finance agencies and donors that provide advice, technical assistance and financing for the reform programs or for the government’s budget at large.

FOR MORE INFORMATION, PLEASE CONTACT

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