



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**AUDIT OF
USAID/AZERBAIJAN'S
ECONOMIC GROWTH
PROGRAM**

AUDIT REPORT NO. 8-112-07-001-P
December 15, 2006

FRANKFURT, GERMANY



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Office of Inspector General

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MEMORANDUM

TO: USAID/Caucasus, Mission Director, Robert Wilson

FROM: Regional Inspector General, Frankfurt, Gerard M. Custer /s/

SUBJECT: Audit of USAID/Azerbaijan's Economic Growth Program
(Report Number 8-112-07-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report, making changes where appropriate, and have included them in Appendix II.

The report contains three recommendations for corrective action. In your written comments, you concurred with all three recommendations and identified specific actions to address our concerns. Therefore, we consider that a management decision has been reached on each of the three recommendations. Please coordinate final action with USAID's Audit Performance and Compliance Division (M/CFO/APC).

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

USAID/Azerbaijan's Economic Growth Program (the Program) seeks to strengthen and diversify Azerbaijan's economy, which has booming oil and gas sectors, but little additional economic activity. This audit was designed to determine if the Program's activities were progressing as expected toward achieving their planned outputs. While USAID/Azerbaijan is responsible for the day-to-day implementation of the Economic Growth Program, USAID/Caucasus, located in Tbilisi, Georgia, has regional responsibility for the overall management of the Program's operations. (See page 2.)

During fiscal year (FY) 2006, most of the Program's activities did not progress as expected towards the achievement of planned outputs. Specifically, seven of the Program's eight projects, representing 98 percent of the projects' total expected lifetime funding, were not progressing as expected during FY 2006 towards achieving their planned outputs. Among these seven projects:

- one was terminated early without achieving two of its three major outputs;
- four did not deliver key outputs specified in their annual project work plans; and
- two were found to be duplicative and were significantly restructured, each with a reduced scope. (See pages 4–5.)

The poor performance of these projects during FY 2006 stemmed from a variety of implementation problems, some of which were beyond the Mission's control. On one project, for example, problems occurred when the Government of Azerbaijan changed its attitude regarding reforms in the energy sector and decided not to adopt legislation to establish an energy regulatory body, a decision that prevented the project from achieving key outputs. In another case, outputs were delayed when the implementing partner introduced new tasks not included in the original work plan. (See page 5.)

These implementation problems, however, were compounded by the fact that USAID/Azerbaijan did not maintain an effective performance management system for monitoring its Economic Growth Program. Specifically, data regarding project implementation status was not being systematically collected and maintained in project files as required. In addition, there was insufficient guidance regarding the use of implementer monitoring and evaluation efforts, a potentially useful source of information on program status. Improved oversight in these areas would have increased the likelihood of implementation problems being addressed early on, possibly resulting in better progress being achieved under some of the projects. (See pages 6-8.)

This report contains three recommendations to correct the identified deficiencies associated with the Mission's performance monitoring. (See pages 8-9.)

In its comments to our report, the Mission concurred with our recommendations and outlined appropriate actions to correct each of the identified deficiencies. Based on the Mission's response, we consider a management decision to have been reached on all three recommendations. See page 10 for our evaluation of management comments. Management comments are included in their entirety in Appendix II.

BACKGROUND

Azerbaijan has one of the fastest growing economies in the world, with the economy growing at an annual rate of 20 percent in FY 2005. However, the nation's economic growth is unbalanced, with oil and gas production accounting for 90 percent of all exports, and 30 percent of gross domestic product, but only 1.5 percent of employment. Furthermore, the fundamentals of government revenue management and broad-based, employment-generating economic development remain undeveloped. Therefore, major economic reforms are needed to spur growth in the non-oil sector of the economy.

To address this need, USAID/Azerbaijan's Economic Growth Program was designed to promote macro-economic stability and diversify the non-oil producing sectors of the economy. Specifically, the program attempts to provide (1) small and medium businesses opportunities, particularly in the agricultural sector; (2) stability within the financial sector; and (3) a business-friendly legal and regulatory environment. As of FY 2006, the Mission's economic growth portfolio consisted of eight projects with a total life-of-project funding level of approximately \$41 million, as shown in the chart below.

USAID/Azerbaijan Economic Development Projects

Project	Primary Goal	Lifetime Cost (\$ millions)	Start Date	End Date
Azerbaijan Energy Assistance Project	Regulation and Privatization of Energy	5.5	9/03	9/06
Azerbaijan Business Assistance and Development	Rural Economic Development	3.4	8/04	10/07
Rural Enterprise Competitiveness Program	Increase Agricultural Production and Income	9.2	9/03	10/07
Public Investment Policy Project	Improved Planning and Capital Budgeting	5.2	3/05	12/07
Small and Medium Enterprise Support Project	Economic Growth and Diversification	6.4	9/05	9/08
Treasury Information Management System	Automation of Treasury Transactions	7.3	10/02	6/07
National Bank of Azerbaijan Banking Supervision Support	Banking Oversight Improvements	3.0	9/04	9/06
Junior Achievement School Economics Education	Economic Education of Students	0.8	2/03	2/08
Total		<u>40.8</u>		

While USAID/Azerbaijan is responsible for the day-to-day operation and implementation of the Economic Growth Program, USAID/Caucasus¹, located in Tbilisi, Georgia, is responsible for the overall management of the program.

¹ USAID/Caucasus manages two USAID missions – USAID/Azerbaijan and USAID/Georgia.

AUDIT OBJECTIVE

This audit was part of the Office of Inspector General's fiscal year 2006 annual audit plan and was conducted to promote improvements in the way USAID/Azerbaijan implements the activities that advance economic growth in Azerbaijan. The audit was conducted to answer the following question:

- **Did USAID/Azerbaijan's Economic Growth Program progress as expected towards the achievement of planned outputs under its grants, cooperative agreements, and contracts?**

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

During FY 2006, most of USAID/Azerbaijan's Economic Growth Program activities did not progress as expected towards the achievement of their planned outputs. Of the program's eight projects, only one—Junior Achievement—substantially achieved all of the outputs that had been planned for the fiscal year. Among the remaining seven projects, representing 98 percent of the program's total expected lifetime funding, one was terminated early without achieving two of its three major outputs; four did not deliver key outputs included in their annual project work plans; and two were found to be duplicative and were significantly restructured, each with a reduced scope.

The results of our review of all eight projects are presented below.

Azerbaijan Energy Assistance Project: This \$5.5 million project sought to assist in: (1) creating an independent energy regulator for Azerbaijan (2) restructuring and privatizing Azerbaijan's energy markets and (3) attracting investment into the Azerbaijan energy sector. However, due to the Azeri government's lack of commitment toward reform efforts, the project was terminated prematurely during FY 2006 without delivering two of its three major outputs—the establishment of an independent energy regulator and the restructuring of the Azeri energy markets.

Azerbaijan Business Assistance and Development (ABAD) Project: This project involved a \$3.4 million effort to promote rural economic development by (1) increasing the sales of producers and rural enterprises in four economic corridors and (2) generating increases in employment. However, a USAID/Azerbaijan-sponsored assessment concluded that the project significantly duplicated the effort of the Rural Enterprise Competitiveness Project (RECP; see below). Following the assessment, USAID/Azerbaijan cut the project's budget which was scheduled to be terminated in FY 2007, one year earlier than planned. As a result, the project will not achieve all of the outputs envisioned, such as the establishment of an equipment leasing program and a network for women entrepreneurs.

Rural Enterprise Competitiveness Project (RECP): This \$9.2 million project sought to raise rural incomes and agriculture productivity by increasing the quantity and quality of fresh and processed agricultural products sold domestically and offered for export. However, as discussed earlier, USAID/Azerbaijan concluded that the project largely duplicated the ABAD project. Furthermore, while the project met or exceeded its goals in some areas, RECP was not able to achieve all of the outputs originally envisioned, such as the establishment of a marketing council and reform of key marketing regulations. After reassessing the project in May 2006, USAID/Azerbaijan reduced the project's funding and plans to terminate the project in FY 2007, a year earlier than originally planned.

Public Investment Policy Project (PIPP): The primary objective of this \$5.2 million project is to help strengthen the Government of Azerbaijan's capacity for long-term development and policy planning, capital-budget formulation, investment project preparation, and project appraisal. During its first implementation year, the project accomplished many of the tasks in its work plan and delivered most outputs on time; however, some key outputs, most notably a Manual for Public Investment Policy and

Project Development, were delayed because the training component demanded more staff attention than had been anticipated, and because the implementing partner added a new output—an orientation trip to Turkey for government officials—to the work plan. The trip to Turkey was added because the partner believed that it would lead to increased support for similar reform efforts in Azerbaijan. The partner expects to deliver the aforementioned policy manual in FY 2007.

Small and Medium Enterprise (SME) Support through Financial Development:

This \$6.4 million project was designed to expand employment in the non-oil sectors of the Azeri economy by facilitating increased access to loan capital and financial services for SMEs. During FY 2006, the SME project's first year of operation, the implementing partner completed most of the tasks and delivered most of the outputs called for by the approved work plan. However, some project outputs, such as the development of courses to be used for financial management training, were delayed. According to the implementer, the program's Azeri counterpart organization wished to expand the training to areas beyond SME financing and management, a modification that took longer than expected to resolve. Completion of the training course development will take place during the project's second year.

Treasury Information Management System (TIMS): This \$7.3 million project assisted with the installation of a nation-wide automated information system for the Azerbaijan Ministry of Finance to manage, execute, and audit treasury transactions. However, due to delays by a subcontractor in developing needed software early in the project, the TIMS project will not be completed in FY 2006 as planned. Rather, the project required a nine-month extension and an additional \$1 million of funds in order to deliver the remaining outputs in FY 2007.

Banking Supervision: This \$3 million project assisted the National Bank of Azerbaijan, Bank Supervision Department, in developing needed components for prudent regulation. Specifically, the project developed the bank's on-site inspection methodology, off-site analytic tools, problem bank resolution methods, and an underlining strategy outlining policies and procedures. However, the implementing partner did not provide all of the training for National Bank staff that had been included in the FY 2006 work plan. As a result, a follow-on training contract will be required to deliver this output. This new effort is scheduled to begin during FY 2007.

Junior Achievement: The primary objective of this \$800,000 project is to develop the business workforce through economics and entrepreneurship training of students. The project delivered all of the key outputs specified in its FY 2006 work plan and is on target to deliver all of its planned training and education outputs.

The delays in performance observed under the first seven listed projects stemmed from a variety of implementation problems, some of which were beyond the Mission's control. On one of the projects, for example, problems occurred when the Government of Azerbaijan changed its attitude regarding reforms in the energy sector and decided not to adopt legislation to establish an energy regulatory body, a decision that prevented the project from achieving key outputs. In another case, progress was delayed when the implementing partner identified and implemented new tasks that were deemed necessary, but had not been foreseen and included in the original work plan.

These implementation problems, however, were exacerbated by the fact that USAID/Azerbaijan did not maintain a fully effective performance management system for monitoring its Economic Growth Program to allow for the early detection and mitigation of performance problems. Specifically, the Mission was not systematically collecting and maintaining sufficient information in its project files to ascertain project implementation status as required. In addition, the Mission had not provided sufficient guidance to its implementers regarding the reporting of the performance data they compiled, a potentially useful source of information for assessing program status. These deficiencies, in turn, hampered the Mission's ability to identify potential implementation problems promptly and ensure that these problems were addressed through corrective action early on, which could have resulted in better progress under some of the projects. These deficiencies are described in further detail in the discussion below.

Mission Did Not Maintain an Effective Performance Management System

Summary: To help ensure that USAID projects deliver their planned outputs and meet their overall objectives, the ADS provides guidance for program management. Additionally, USAID/Caucasus Mission Order 203 lays out specific implementing instructions for program monitoring. However, due to staff turnover and a lack of management attention, USAID/Azerbaijan did not fully implement this guidance for its economic growth program activities. Specifically, information regarding project implementation status was not being maintained in project files as required. While the Mission received quarterly performance reports, the data contained in these reports was often limited to discussing actual accomplishments, rather than indicating the status of work under each activity in relation to the project's work plan. Furthermore, the Mission was not systematically collecting and utilizing all of the pertinent data generated from its implementers' monitoring and evaluation efforts, a potentially useful source of information regarding activity status. As a result, the Mission did not maintain a fully effective system to identify and react early to problems that could affect short-term and long-term project effectiveness.

To help ensure that projects deliver their planned outputs and meet their overall objectives, missions are expected to follow the performance management techniques outlined in USAID's Automated Data System (ADS). These techniques, as defined in ADS 200.6, include:

- monitoring the results of activities;
- collecting and analyzing performance information to track progress toward planned results;
- using performance information to influence program decision making and resource allocation; and
- communicating the results achieved, or not attained, to advance organizational learning and tell the Agency's story.

These responsibilities are discussed in further detail in USAID/Caucasus Mission Order (MO) 203 which provides specific implementing instructions for staff, including USAID/Azerbaijan, to follow in its program monitoring. For example, MO 203 requires that Cognizant Technical Officers (CTOs) and Strategic Objective (SO) Teams monitor the quality and timeliness of outputs produced by the Mission's implementing partners and verify that these outputs are leading to the intended results. This monitoring process also includes the establishment of milestones, analyzing or evaluating individual outputs, and assessing progress towards specific results. In addition, relevant documentation should be maintained in the project and SO team files for future reference. For example, MO 203 requires that site visits, significant correspondence, and meetings with counterparts, implementers, and beneficiaries should be documented by the manager to record progress, status, problems, and successes.

USAID/Azerbaijan, however, did not have an effective performance management system in place to monitor the status of its Economic Growth Program activities and ensure that planned outputs were being achieved. Specifically, the audit found that (1) Mission records showed little evidence that the Mission was routinely monitoring the progress achieved by its implementers towards achieving planned outputs; (2) quarterly reports received by the Mission did not always provide sufficient information to facilitate this monitoring; and (3) the Mission was not always receiving other pertinent performance data generated by the implementers' performance information and monitoring system. These items are discussed in further detail below.

Status Not Documented in Mission Files: In reviewing the Mission's program files, the audit team noted that these files contained little information showing the status under individual work plans and progress achieved to date toward the achievement of specific outputs specified in these work plans. Such information was not readily available at the Mission. In addition, there were few instances where the Mission's project and SO files documented site visits, telephone conversations, or meetings with implementers as required by MO 203. [Note: Subsequent interviews with program implementers and a review of their records revealed delays, changes and disconnects between the contracts and work plans that were also not documented in the Mission's working files.]

Progress Achieved Against Work Plan Not Reflected in Quarterly Reports: While the Mission received quarterly reports from its implementers, these reports did not always provide an accurate picture on the status of project implementation since the data reported was limited to only the work accomplished to date and did not relate this information to the work plan so as to indicate the status of the activity. For example, the work plan under one project anticipated significant work under three primary objectives. However, the implementer's reports addressed the work accomplished under only two of the objectives; the reports were silent as to the status of work under the third objective. Specific information on the status under this project could not be obtained from the Mission's files and could only be obtained directly from the implementing partner.

Other Performance Data Not Being Gathered: USAID/Caucasus MO 203 required implementers to establish a performance information and monitoring system which, among other things, specifies the implementer's methodology for achieving planned outputs and also relating those outputs to higher-level objectives. In response to this requirement, implementers developed detailed monitoring systems, but the data generated from these systems were not always being provided to the Mission to be used for program management purposes. For example, one implementer's monitoring plan

included a matrix of 16 elements (four in each quarter), but no specific tracking information was ever submitted to the Mission regarding actual accomplishments against targets. In the case of another implementer, a detailed monitoring plan had been developed, but the implementer stated that the Mission never requested the resulting performance data that was generated.

According to Mission staff, high turnover among the Mission's program staff during FY 2006 and a lack of management attention to detailed implementation of the MO 203 requirements contributed to the lack of documentation in the program files. Another contributing factor was the fact that USAID/Azerbaijan, unlike other programs covered under MO 203, was not required to prepare Annual Activity Reports (AARs) for USAID/Caucasus' management review, thereby reducing the need to maintain complete program files. Normally, AARs would identify the program's purpose, intended activity-level outcomes and achievements to date and would be presented to Mission management in conjunction with its portfolio reviews. However, USAID/Caucasus specifically exempted USAID/Azerbaijan from the requirement to develop AARs due to staff limitations that existed in Baku when the guidance was issued in 2002. Although USAID/Azerbaijan, according to mission management, is currently staffed at an appropriate level, USAID/Caucasus, due to a management oversight, still does not require USAID/Azerbaijan to develop AARs.

With regards to the data generated by the implementers' performance information and monitoring systems, the Mission was not always receiving this data from implementers because the relevant guidance contained in MO 203 does not adequately detail CTO responsibilities. Such responsibilities might include reviewing the monitoring plans, ensuring that specific performance data is collected and incorporating the resulting data into its program management activities. However, the guidance merely describes the requirement for the plans without addressing how the resulting data should be collected and used; thus CTOs rarely utilized this monitoring data to track the details of each project's implementation.

We believe the above deficiencies have hampered USAID/Azerbaijan's ability to track the progress achieved under individual program activities as well as reduced the Mission's ability to identify implementation problems early on so that appropriate corrective action could be initiated. As a result, the Mission has not been able to effectively monitor and execute its program management responsibilities to the fullest extent to ensure that the program's planned outputs would be achieved.

To correct the problems identified with regards to USAID/Azerbaijan's performance management system, we are making the following recommendations to USAID/Caucasus which has regional management authority over USAID/Azerbaijan:

Recommendation No. 1: We recommend that USAID/Caucasus develop a plan to fully implement the performance monitoring requirements of Automated Directive System 202 and 203 and Mission Order 203 regarding the establishment of milestones, analysis of individual outputs, and assessment of progress towards the achievement of outputs under its Economic Growth Program.

Recommendation No. 2: We recommend that USAID/Caucasus expand the requirements for Annual Activity Reports to include USAID/Azerbaijan.

Recommendation No. 3: We recommend that USAID/Caucasus update Mission Order 203 to provide specific guidance regarding the use of implementer performance monitoring plans to ensure that pertinent data generated regarding the Economic Growth Program is furnished to USAID/Azerbaijan for program management purposes.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on our draft report, USAID/Caucuses concurred with our recommendations and outlined action the Mission would take to address our concerns. Specifically, the Mission agreed to:

- update Mission Order 203 to require Annual Activity Reports from USAID/Azerbaijan;
- incorporate spot check reviews of project files;
- include monitoring of oversight deficiencies as part of the quarterly Management Control and Review Committee meetings;
- hold biannual Implementation Reviews; and
- provide specific guidance regarding the use of implementer performance monitoring plans to ensure that pertinent data is furnished to the Mission for program management purposes.

We believe that these actions are appropriate in correcting the identified problems and, therefore, consider that a management decision has been reached on each of our three recommendations.

The Mission also provided some supplementary information regarding the status of the various projects. The Mission's comments are included in their entirety as Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Frankfurt audited USAID/Azerbaijan's Economic Growth Program activities in accordance with generally accepted government auditing standards. The purpose of the audit was to determine whether USAID/Azerbaijan's Economic Growth Program activities were progressing as expected towards achieving the planned outputs under its grants, cooperative agreements and contracts.

In planning and performing the audit, we assessed management controls related to the development, implementation, use and management review of performance measures and indicators. Specifically, we reviewed:

- The Mission's annual reports for fiscal year 2006;
- The Mission's current Performance Management Plan (PMP);
- ADS requirements related to performance measures; and
- The Mission's portfolio review process and results.

Additionally, we considered relevant prior audit findings from a similar audit completed at USAID/Peru. We also reviewed the Mission's performance indicators for program activities as well as the performance data collected and reported under these indicators as part of the FY 2006 Annual Report.

We conducted the audit at the USAID/Azerbaijan Mission in Baku, Azerbaijan and at various implementing partner site locations in Baku from July 9-22, 2006 and from September 18 through October 6, 2006.

Methodology

To form a conclusion about whether USAID/Azerbaijan's economic growth activities were progressing as expected toward achieving their planned outputs, we first compared implementer contracts, grants, and cooperative agreements to implementer work plans to assure consistency. We then reviewed the work accomplished as reported in the implementers' reports and compared actual accomplishments against the specific outputs as defined in contracts and approved work plans, such as the development of training courses and the development of draft ministerial decrees regarding reforms. To assess the Mission's compliance with requirements to document program performance, we reviewed correspondence, assessment reports, and other data maintained by the Mission. We also tested a judgmental sample of outputs under each project and verified reported progress related to these outputs during site visits and interviews with each implementing partner. Based on the collective results, we determined the progress of each project toward the achievement of planned outputs.

Because the contracts and work plans identified numerous outputs of varying complexity and importance, many of which could not be objectively quantified, we did not develop a specific materiality threshold relating to the number of outputs delivered; rather, we relied on subjective judgments in making our determination regarding progress and confirmed these judgments through discussions with appropriate Mission personnel.

In addition, we reviewed applicable policies, procedures and management controls related to the management for results, including ADS 202, ADS 203 and Mission Order 203. We also interviewed CTOs, implementing partners, and Mission managers regarding their roles in developing and maintaining performance indicators and related performance data. We then evaluated the Mission's compliance with relevant program management controls and policies.

MANAGEMENT COMMENTS



MEMORANDUM

Date: December 4, 2006

From: Robert Wilson, USAID/Caucasus Mission Director

To: Regional Inspector General, Frankfurt, Gerard M. Custer

Re: Comments responding to draft report: Audit of USAID/Azerbaijan's Economic Growth Program, November 3, 2006; (Report Number 8-121-07-001-P)

As you requested, we are providing herein responses regarding the draft report referenced above. We welcome the opportunity to improve our systems and are happy to receive the constructive recommendations contained in the report.

Recommendation No. 1: We recommend that USAID/Caucasus develop a plan to fully implement the performance monitoring requirements of ADS 202, 203 and Mission Order 203 regarding the establishment of milestones, analysis of individual outputs, and assessment of progress towards specific results.

RESPONSE: Mission concurs.

We request that the final audit report reflect that a management decision has been reached for Recommendation No. 1, based on the following plan. To ensure full implementation of its performance monitoring requirements the mission will: review the requirements with current program management, expand requirements for Annual Activity Reports to include USAID/Azerbaijan, incorporate spot check reviews of project files as part of the FMFIA process, and include monitoring of oversight deficiencies as part of the quarterly Management Control and Review Committee meetings. Additionally, Project Implementation Reviews will be held bi-annually beginning with the initial submission of the FY 07 Operational Plan.

Recommendation No. 2: We recommend that USAID/Caucasus expand the requirements for Annual Activity Reports to include USAID/Azerbaijan.

RESPONSE: Mission concurs.

We request that the final audit report reflect that a management decision has been reached for Recommendation No. 2. To expand the requirement of the Annual Activity Reports the Mission will: require USAID/Caucasus-Azerbaijan to provide Annual Activity Reports, and delete the following from Mission Order 203, Section IV. A. 3. "(though at this time the Mission is limiting the system to USAID/Caucasus-Georgia because of staffing constraints in Azerbaijan)."

Recommendation No. 3: We recommend that USAID/Caucuses update Mission Order 203 to provide specific guidance regarding the use of implementer performance monitoring plans to ensure that pertinent data generated under these plans is furnished to the Mission for program management purposes.

RESPONSE: Mission concurs.

We request that the final audit report reflect that a management decision has been reached for Recommendation No. 3. Mission management will amend Mission Order 203 to provide specific guidance regarding the use of implementer performance monitoring plans to ensure that pertinent data generated under these plans is furnished to the Mission for program management purposes.

COMMENTS:

Below are additional comments which are intended to clarify corresponding narrative sections found in the draft report:

Azerbaijan Energy Assistance Project:

Mission Response: The Mission conducted a special review of Project progress and prospects when the GOAJ refused to establish an independent energy regulator. Based on this review, USAID made a unilateral decision to end the project one year early, resulting in the failure to achieve corresponding objectives.

Azerbaijan Business Assistance and Development (ABAD) Project:

Mission Response: A USAID-sponsored assessment concluded that the project significantly duplicated the effort of the Rural Enterprise Competitiveness Project (RECP, see below). Following the assessment, USAID/Azerbaijan decided to reduce the project's budget and end the project one year early, at the end of FY 07. In addition, the project was restructured to better focus remaining resources and ensure non-duplication of RECP.

Rural Enterprise Competitiveness Project (RECP):

Mission Response: The current political environment in Azerbaijan greatly limits the potential for changes in marketing regulations, and past evaluations have shown that entrepreneurs are reluctant to join business associations which might challenge GOAJ interests. After reassessing the project in May 2006, USAID/Azerbaijan reduced the project's funding and decided to end the project a year early in FY 2007.

Public Investment Policy Project (PIPP):

Mission Response: The approval of the Public Investment Policy Manual required time-consuming clearances by several key ministries thus increasing development time.

Treasury Information Management System (TIMS):

Mission Response: Much of the delay noted can be attributed to reluctance of the new Minister of Finance (in place by May 2006) to fully embrace the information system. The Minister has since agreed to a full system roll-out with Ministry co-financing. With a six-month extension to the project the information system will be fully operational at a cost much lower than \$1 million. The software subcontractor developed the software at a financial loss in order to gain experience and market share, thus saving USAID considerable financial resources.