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**IMMEDIATE
ATTENTION**

EBS/99/224

CONFIDENTIAL

December 9, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Azerbaijan Republic—Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF), and Extended Arrangement—Request for Extension of Commitment Period**

It is not proposed to bring the attached paper to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Thursday, December 16, 1999. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Owen (ext. 38811) and Mr. Mikkelsen (ext. 38505) are available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

AZERBAIJAN REPUBLIC

**Three-Year Arrangement Under the Poverty Reduction
and Growth Facility (PRGF), and Extended Arrangement—
Request for Extension of the Commitment Period**

Prepared by European II Department

(In consultation with Legal and Policy Development and Review Departments)

Approved by Oleh Havrylyshyn

December 9, 1999

I. INTRODUCTION

1. On December 20, 1996, the Executive Board approved for Azerbaijan a three-year extended arrangement in an amount equivalent to SDR 58.5 million and a three-year arrangement under the PRGF (then ESAF) in an amount equivalent to SDR 93.6 million. On January 25, 1999, the Executive Board approved the third annual arrangement under the PRGF in an amount equivalent to SDR 23.4 million. The mid-term review under the third annual PRGF arrangement and the fifth review under the extended arrangement were completed on June 30, 1999.

II. REQUEST FOR EXTENSION OF THE COMMITMENT PERIOD

2. Azerbaijan observed all end-September 1999 quantitative performance criteria. However, discussions for the final reviews under the third annual arrangement under the PRGF and under the extended arrangement have been prolonged because of the need to take corrective steps that would justify completion of the reviews, in the light of non-observance of two end-September 1999 structural performance criteria (relating to the completion of an audit of the state oil company, SOCAR, and the offering for sale of Savings Bank) and delays in implementation of some structural benchmarks. The authorities intend to complete the audit of SOCAR and take other actions in the areas of bank restructuring, privatization, tax reform, and reform of public administration prior to Executive Board completion of the reviews. The authorities have requested that the commitment periods of the three-year PRGF arrangement and of the extended arrangement for Azerbaijan be extended by three months to March 19, 2000 (see attachment) to provide sufficient time to complete the reviews.

3. The staff expects that such extension will give sufficient time to complete the reviews and recommends that the Executive Board grant this request.

III. PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

The commitment periods of the three-year arrangement under the Poverty Reduction and Growth Facility (EBS/96/188 Sup. 3) and of the three-year Extended Arrangement (EBS/96/188 Sup. 2) approved for Azerbaijan Republic on December 20, 1996 are extended to March 19, 2000.

December 9, 1999

Michel Camdessus
Managing Director
International Monetary Fund
Washington, DC

Dear Mr. Camdessus,

On December 20, 1996, the Executive Board approved a three-year extended arrangement and a three-year PRGF (then ESAF) arrangement for Azerbaijan.

Azerbaijan observed all end-September 1999 quantitative performance criteria, but several structural benchmarks, including two performance criteria, were not completed on time. Prior to the Executive Board completion of the final reviews under the third-annual arrangement under the PRGF and the extended arrangement, the government is committed to taking corrective steps to bring the program back on track. In order to allow sufficient time for completing the reviews, the Government of Azerbaijan wishes to request an extension of the commitment periods of the three-year arrangement under the PRGF and of the three-year extended arrangement, from December 19, 1999 to March 19, 2000.

Sincerely yours,

/s/

Artur Rasizade
Prime Minister of the
Azerbaijan Republic

