

## Azerbaijan

**The Development Challenge:** Since 1994, Azerbaijan has been working to develop its oil and gas resources successfully and to achieve macroeconomic stability. However, it is still far from achieving broad-based prosperity for its eight million citizens. One of the greatest challenges facing the country is to ensure all sectors of society derive a modicum of benefits from the increasing oil revenues. Also important is diversifying the economy by reducing its reliance on oil and gas and improving the productivity of the non-energy sectors, especially in the agricultural sector, on which 45% of the population is dependent. Corruption is pervasive at all levels of government, including judicial bodies, ministries, and local government administrations. Azerbaijan ranks 124th out of 133 countries in Transparency International's 2003 Corruption Perception Index. Corruption is a significant deterrent to investment. Settling the conflict with Armenia over Nagorno-Karabakh (NK), which generated nearly 800,000 refugees and internally displaced persons (IDPs) is key to the region's stability. Refugees comprise close to 10% of the country's population. In terms of income, IDPs typically are on a par with other vulnerable groups.

According to the World Bank poverty assessment in 2002, four million people, nearly half the population, live below the poverty line, earning less than \$24.50 per capita per month. The most vulnerable groups are children under five years of age, women especially in their childbearing years (UNICEF estimated the maternal mortality rate for 2000 was 79 per 100,000 live births), the IDPs, and the poor who do not have access to basic health care. The primary risk for conflict is over NK. Since 9/11, U.S. relationships with the Government of Azerbaijan have been productive and are broadening.

Azerbaijan's macroeconomic situation continues to improve. Increased oil prices and production have been the major factors that led to a 10.6% growth in GDP in 2002 and a projected growth of 9.2% in 2003. The currency is stable, and oil has given Azerbaijan a healthy trade surplus throughout 2002 and 2003. Sound fiscal and monetary policies have kept the budget deficit and inflation low. Per capita GDP, however, is low at about \$750. The consolidated government budget deficit was only 0.5% of GDP in 2002, and external debt was \$1.4 billion or 23% of GDP.

U.S. foreign policy goals seek an independent, secure, and prosperous Azerbaijan as a vital corridor of commerce between East and West. Stability in Azerbaijan is essential for stability in the Caucasus and the Central Asia regions. USG assistance priorities are to: (1) strengthen counterterrorism and related security capabilities; (2) support economic growth and reform, including guiding energy wealth toward developing infrastructure and sustainable social systems; and (3) strengthen and expand democratic institutions and rule of law. Azerbaijan is an ally of the United States in the war on terrorism and has deployed peacekeeping troops to Afghanistan and Iraq (following an earlier deployment to Kosovo).

**The USAID Program:** The Program Data Sheets cover the four objectives for which USAID is requesting FY 2004 and FY 2005 funds. These four objectives concentrate on increasing citizen representation in democratic processes and promoting broad-based economic growth. Since the waiver of FSA Section 907 in 2002, USAID has been working with the GOAJ toward achieving these Strategic Objectives through policy changes and provision of technical assistance. As described in the FY 2004 Congressional Budget Justification, FY 2004 funds will be used to continue fostering democratic progress, developing a market economy with a well functioning private sector to include job creation, and promoting social transition activities for vulnerable communities. USAID will work more closely with the GOAJ to implement these activities.

**Other Program Elements:** In addition to the resources requested in the Program Data Sheets, the USAID Global Health Bureau manages the Child Survival Program. The USAID Economic Growth Agriculture and Trade (EGAT) Bureau manages the Cluster Access to Business Services Program. Both are implemented by Mercy Corps in southeast Azerbaijan.

**Other Donors:** Donor coordination has been good. Major international donors in Azerbaijan implement programs aimed at the development of a democratic society and an open market economy in the country. Among the donor agencies, USAID has assumed a strong role of donor coordination. USAID has

coordinated with the European Union (EU) on rule of law; with the United Kingdom (UK), Dutch and German governments and the Organization for Security and Cooperation in Europe (OSCE) on elections; with the Council of Europe on municipalities; with the United Nations Population Fund on reproductive health; with the United States Department of Agriculture on agricultural technical assistance; and with the World Bank and International Monetary Fund (IMF) on financial sector reforms. Bilateral donors include Germany (privatization; rule of law, judicial reform projects and media); Japan (power-electricity sector, food production, economic infrastructure, improved social integration, and human resource development); UK (democracy and governance, conflict prevention, poverty reduction, drugs/trafficking/organized crime, private sector development, macroeconomic reform, and environmental protection).

Multilateral assistance is provided by: the EU (market economics, private sector development, pluralist democracy, human rights, refugee housing); the United Nations Development Programme (governance, poverty reduction, environment and engineering, HIV/AIDS); and the United Nations High Commissioner for Refugees (refugees and internally displaced persons).

International Financial Institutions assistance includes: the World Bank (agricultural development, infrastructure, health/financial reform policy, and education); the IMF (macroeconomic stability, governance, and the non-oil sector development); the Islamic Development Bank (infrastructure: power, roads, agriculture, irrigation, and refugees); and the Black Sea Trade and Development Bank (trade finance, equity investment, develop non-oil sectors, and inter-regional projects).

## Data Sheet

<b>USAID Mission:</b>	Azerbaijan
<b>Program Title:</b>	Development of Small and Medium Enterprises
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	112-0130
<b>Proposed FY 2004 Obligation:</b>	\$11,082,000 FSA
<b>Prior Year Unobligated:</b>	\$3,270,000 FSA
<b>Proposed FY 2005 Obligation:</b>	\$13,350,000 FSA
<b>Year of Initial Obligation:</b>	FY 1997
<b>Year of Final Obligation:</b>	FY 2009

**Summary:** USAID's program to accelerate small and medium enterprises (SMEs) development, particularly in the agricultural sector, focuses on: expanding access to micro and SME credit; improving business and technical skills; increasing rural sector competitiveness; and improving the use of production inputs. Implementation of a targeted economic reform program focuses on strengthening the banking sector, improving financial management practices, and promoting energy sector reform.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

SME development (\$1,000,000 FSA). The Enterprise Development and Training Program will enhance the competitiveness of local SMEs through the provision of training and consulting services and will include a variety of production and service businesses. Principal grantee: Citizens Development Corps.

Agribusiness/Rural Development (\$2,950,000 FSA, \$2,000,000 FSA carryover). USAID will provide technical assistance and training to the agricultural sector to identify products that can be competitive in domestic and international markets. Developing a business infrastructure that supports business development, including distribution, marketing, and information exchange systems will be emphasized. Business Development Resource Centers in rural areas of Azerbaijan will provide business development and training services, information and marketing delivery and technical assistance services, and mobilize communities to identify and prioritize interventions. Principal grantees: Pragma Corp., others to be determined.

Policy support/financial services development (\$4,332,000 FSA, \$580,000 FSA carryover). Activities in these areas will provide technical assistance and training to a policy and analytical unit within the State Program on Poverty Reduction and Economic Development Secretariat and support development of credit culture through public awareness campaigns. Technical assistance to the Ministry of Finance and Treasury will also be provided to help automate and integrate the public-sector financial system. Principal contractors/grantees: Carana Corp., others to be determined.

Energy and environment (\$1,495,958 FSA, \$250,000 FSA carryover). A regulatory framework for a commercially viable energy sector will be developed by emphasizing reforms that enable Azerbaijan to meet World Bank and IMF requirements. Program elements include introducing modern tariff, licensing, and market oversight methodologies and instruments, creating an efficient market structure for the domestic electricity and gas sub-sectors, and designing a viable energy assistance program for low-income and vulnerable populations. Other ongoing activity is designed to provide support for meteorological stations and training as part of the South Caucasus Regional Water Management Program. It fosters increased cooperation among South Caucasus countries of Armenia, Azerbaijan, and Georgia in support of improved water management in the region. Principal Contractors: PA Government Services, Inc., Development Alternatives International (DAI).

Program Development and Support (\$1,304,042 FSA, \$439,766 FSA carryover). This section is to provide funding for program-funded personnel, as well as assessments/evaluations, procurement instruments and other administrative actions.

**FY 2005 Program:**

Cluster enterprise development (\$1,500,000 FSA). USAID will provide business skills training and technical assistance to the business community to develop bankable projects for credit from the formal banking system. A project will be designed to capture SME development opportunities in agribusiness and the service industries that support business clusters operating in the non-oil sector. Principal grantee: to be determined.

Micro credit (\$600,000 FSA). Funds will be used to capitalize the microfinance program. Principal grantees: Shorebank, FINCA, ACDI VOCA.

Increase the competitiveness of rural enterprises (\$2,750,000 FSA). USAID will focus on increased technical training to engage public and private sector leadership with resources to be directed at supporting marketing and technical linkages between producers, processors, and the market. Principal contractor: Pragma Corp.

The Rural Azerbaijan Business Development Program (\$1,600,000 FSA). Business support resource centers will link community-based enterprises to the market. Nine centers will provide technical and market information, technical assistance, training, and leasing services to clusters of businesses that support agro-based activities in rural communities. Principal grantee: to be determined.

Food Quality Program (\$1,500,000 FSA). This activity will address ISO 9000 (quality standards) requirements for the European Union and regional markets, and will be directed at domestic and export quality products produced in Azerbaijan. Principal contractors/grantees: to be determined.

Policy support (\$2,000,000 FSA). USAID will continue support to the State Program on Poverty Reduction and Economic Development Secretariat. Principal contractors/grantees: to be determined.

Financial services sector support (\$1,400,000 FSA). USAID may develop an activity in the financial and banking sectors that responds to the needs of business, foreign direct investment, and domestic investment and will help to build an environment so that oil revenues will be safeguarded and directed to the country's development. Principal contractors/grantees: to be determined.

Program Development and Support (\$1,999,793). This section is to provide funding for program-funded personnel, as well as assessments/evaluations, procurement instruments and other administrative actions.

**Performance and Results:** Access to agricultural production inputs increased through the establishment of an agri-input association, training, equipment provision, and information dissemination which led to new products (inputs), new markets for inputs, increased crop yields, and increased fertilizer usage. New businesses and 4,000 jobs were created. Entrepreneurs increased sales by more than 200%. ISO training and certification led to businesses becoming competitive and winning service contracts with foreign oil companies. With USAID's support, the new Commercial Bank Law has been drafted and implemented, bringing international standards to the commercial banking system, including new corporate governance standards. Progress was made in the implementation of International Accounting and Auditing Standards for commercial banks and in the complete development of an internal audit structure. Human resource assistance continues for the National Bank in reevaluating and improving staff quality by developing new job descriptions and determining actual staffing requirements and needs. Continued progress will provide more jobs in the agricultural and agribusiness sectors, deepen the market orientation in the private sector, and improve the regulatory environment.

## Data Sheet

<b>USAID Mission:</b>	Azerbaijan
<b>Program Title:</b>	Civil Society
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	112-0210
<b>Proposed FY 2004 Obligation:</b>	\$5,900,000 FSA
<b>Prior Year Unobligated:</b>	\$1,402,000 FSA
<b>Proposed FY 2005 Obligation:</b>	\$6,000,000 FSA
<b>Year of Initial Obligation:</b>	1996
<b>Year of Final Obligation:</b>	FY 2009

**Summary:** USAID promotes the development of civil society through the following five components: 1) civic and voter education and citizen participation; 2) grants, information, and organizational training program for advocacy-oriented national groups; 3) technical skills and professional development provided for judges, lawyers, election officials, political parties, and journalists; 4) promotion of an independent media and increased access to information; and 5) legislative commentary and drafting assistance.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

More viable multi-party system and political pluralism (\$2,260,000 FSA, \$485,000 FSA carryover). USAID will provide institutional strengthening and leadership development for political parties, institutions, and civil society representatives through technical assistance and training. Specific assistance will target conflict prevention and resolution, an increase in political space and political pluralism, election administration, internal democracy of targeted institutions, and entry to mid-level political actors. Political pluralism programming will remain engaged with traditional political and electoral partners and institutions while expanding support to emerging groups including Government of Azerbaijan (GOAJ) elected and appointed officials. Principal contractors/grantees: National Democratic Institute, International Republican Institute, International Foundation for Electoral Systems.

Heighten public awareness through the media (\$2,000,000 FSA). This three-year program anticipates increasing civil society's access to objective and varied information through professional and organizational development training, grants, and technical assistance to journalists, media outlets and governmental press services. Principal contractors/grantees: to be determined.

Improved capacity for public outreach and advocacy (\$600,000 FSA). This ongoing civil society development program will promote and expand public participation in the policy formation process by strengthening the institutional capacity and advocacy skills of a select group of 42 civil society organizations. This will be accomplished through strengthening grants, training, and technical assistance. Principal contractors/grantees: Catholic Relief Services.

Increased public awareness of the legal and policy environment (\$900,000 FSA, \$300,000 FSA carryover). This legal database project plans to improve access to legal remedies through expanding access to and public awareness of citizens' legal rights. The planned activity will collect, compile, and develop along with the GOAJ a single official codified database of Azerbaijani laws and regulations whereby legal professionals and the general populace alike will have access to this much needed information through the Internet and a CD-ROM distribution program. Principal contractors/grantees: to be determined.

Program Development and Support (\$140,000 FSA, \$616,653 FSA carryover). This section is to provide funding for program-funded personnel, as well as assessments/evaluations and other administrative actions.

**FY 2005 Program:**

Political & Civic Organizations (\$2,000,000 FSA). USAID will continue to assist political parties and civil society organizations to increase citizen participation in political decision-making processes, and promote more democratic and responsive government. With parliamentary elections planned for the fall 2005 USAID will continue to fund civic/voter education programs to develop an informed citizenry and to encourage more active citizens' participation during the elections. USAID will also work with government and electoral officials to reduce fraud and voter intimidation, and for improved implementation of the recently adopted Unified Election Code. Principal contractor/grantee: International Republican Institute (IRI).

Rule of Law (\$1,700,000 FSA). USAID activities in this area in FY 2005 will promote effective and fair legal institutions, including the judiciary and a variety of NGOs. USAID will work to improve the competency of legal professionals through improvements in the curriculum of universities and other legal institutions and to increase citizen's knowledge of their rights and how to implement those rights leading to increased confidence in the legal system. Principal contractors/grantees: ABA/CEELI.

Civil Society (\$1,800,000 FSA). Conditions of the legal environment for NGO development, government and NGO relations, and public awareness of how a civil society functions are still in the early stages. USAID will continue the development of local NGOs by providing technical assistance, improving managerial and financial skills, and assisting in building networks of professionals and NGOs which influence decision-making processes at government levels. With USAID assistance local NGOs will be on the path towards becoming fully institutionalized. Principal contractors/grantees: to be determined.

Program Development and Support (\$500,000 FSA). This section is to provide funding for program-funded personnel, as well as assessments/evaluations and other administrative actions.

**Performance and Results:** USAID has aided Azerbaijan with creating additional political space for citizen engagement. While this is a long-term process in this traditionally hierarchical society, USAID has been able to achieve the following successes in FY 2003. Progress included the passage of the Unified Election Code whereby USAID provided critical and timely assistance to the GOAJ resulting in much-needed transparency provisions (e.g. transparent ballot boxes, numbered ballot box seals and protocol forms, use of envelopes, signature procedures), although the election was criticized. USAID's political party strengthening and voter and media education activities stimulated public debate around political concerns, the emergence of a new generation of political actors, and an active multi-party campaign. USAID contributed to expanding citizen access to the judicial process and strengthening the legal profession through the passage of a judicial code of ethics and the formation of an independent lawyers' union. USAID is contributing to anti-corruption efforts through a series of public education and public discourse opportunities on the daily costs of corruption. USAID continued to provide equal opportunities for Azerbaijani women to participate in public education and policy debates, with female participation in our activities reaching an all time high of 10,552. Continued progress in this objective will lead to a more active civil society and better developed democratic processes and institutions.

## Data Sheet

<b>USAID Mission:</b>	Azerbaijan
<b>Program Title:</b>	Humanitarian Assistance
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	112-0310
<b>Proposed FY 2004 Obligation:</b>	\$8,790,000 FSA
<b>Prior Year Unobligated:</b>	\$1,603,000 FSA
<b>Proposed FY 2005 Obligation:</b>	\$7,200,000 FSA
<b>Year of Initial Obligation:</b>	FY 1993
<b>Year of Final Obligation:</b>	FY 2009

**Summary:** The physical and economic well-being of vulnerable populations in conflict-affected areas is being improved through direct provision of health services and support for community-based social and economic services.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Humanitarian Assistance (\$5,900,000 FSA, \$761,630 FSA carryover). The major vehicle for providing assistance is the Azerbaijan Humanitarian Assistance Program (AHAP). Under an umbrella cooperative agreement with Mercy Corps International, U.S. and local NGOs provide health and community services in the context of promoting community development and self help. Principal grantees: Mercy Corps International (prime), Save the Children, International Rescue Committee, World Vision International, Adventist Development Relief Agency, Community Habitat Finance, Pathfinder International and International Medical Corps (subs).

USAID will provide conflict-affected communities with organizational training and limited material resources. Specifically, the communities will receive training in community appraisal systems, help with the design of local projects, the forming of local implementation groups, and limited material support for their endeavors.

USAID will work to increase access to economic opportunities and support services. Microcredit and small business development activities will provide demand-driven business development and financial services. The microcredit programs will use group and individual lending with increasing loan amounts over time. The implementing U.S. NGOs will continue the gradual shift away from a direct provision of training and consultation to services offered in cooperation with local organizations.

Delivery of health services will be improved through: 1) promoting/strengthening self-sufficient, community-based health care systems, including cost-recovery mechanisms, drug revolving funds and insurance systems; and 2) improving medical services at community-based clinics. Health education will continue to concentrate on reproductive health, and maternal and child health. Medical providers will continue to receive training to update their skills to apply WHO standards in treatment and assist in upgrading their clinics through community participation.

Health (\$2,890,000 FSA, \$716,827 FSA carryover, \$124,571 FSA prior year recoveries). Three hospital partnerships will continue to train hospital-based physicians, using curricula and techniques that are appropriate to local expertise and resources. Internally-Displaced Persons (IDPs), refugees, and other vulnerable groups will benefit through improved public medical services. Grantee: American International Health Alliance (AIHA).

**FY 2005 Program:**

Social Transition Program (\$5,300,000 FSA). It is anticipated that key program components from the current AHAP will be extended through mid-January of 2006 to ensure a smooth transition to USAID's new strategy. The AHAP programmatic interventions will emphasize handover to local structures and the creation of linkages with other organizations while continuing increased integration of health, social, and economic assistance activities in multi-dimensional community-based endeavors.

Health (\$1,900,000 FSA). The AIHA Hospital Partnership grant was extended through September 2007. A new, small health program will be implemented.

**Performance and Results:** USAID has continued to implement models for community mobilization, business development and, financial service delivery to entrepreneurs in conflict-affected areas. Multi-sectoral interventions strengthened the capacity of communities to address their own needs including group formation and development and facilitating access to financial, health, business, and agricultural services. Many community groups were formed with support from previously established and trained neighboring communities rather than through direct intervention of USAID's partner agencies. Experienced community leaders used numerous vehicles to mentor nascent communities, which include training, cluster community-level events, technical assistance, and monitoring of micro-project implementation. Despite the significant achievements to date, cluster community structures are still quite new and, therefore, require additional time and support to achieve their potential as sustainable community-based development resources. The two USAID-supported microfinance institutions (MFIs) focused on strengthening institutional and operational sustainability. These MFIs put in place considerable refinements in systems and procedures and are aggressively expanding their client base in order to achieve financial sustainability. Business development support services concentrated on strengthening the capacity of local providers to meet market demands for services and the further development of two regional associations. Utilization rates of health care services continued to increase as a result of the strengthened role of the community to organize and manage self-sufficient community-based health care systems, including cost-recovery mechanisms, revolving drug funds and insurance systems, improved medical facilities, and the quality of services of health care providers. In August 2003, the new reproductive health and family planning services program began. This is a groundbreaking program since it involves direct collaboration of community-based development initiatives with the GOAJ, namely the National Reproductive Health Office.

Continued progress in the social transition area and expanded activities in the health sector will translate into an increased number of vulnerable communities having trained and skilled community leaders as well as health professionals, improved resources, institutions, and facilities. The communities will be healthier and have a greater capacity to identify and solve community and social problems.



## Data Sheet

<b>USAID Mission:</b>	Azerbaijan
<b>Program Title:</b>	Cross-Cutting Programs
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	112-0420
<b>Proposed FY 2004 Obligation:</b>	\$5,350,000 FSA
<b>Prior Year Unobligated:</b>	\$416,000 FSA
<b>Proposed FY 2005 Obligation:</b>	\$5,031,000 FSA
<b>Year of Initial Obligation:</b>	FY 1992
<b>Year of Final Obligation:</b>	FY 2009

**Summary:** This cross-cutting objective is comprised of two components that complement all of the Mission's strategic objectives. Those components are training and small grants assistance. Training supports all objectives and consists of short-term and long-term training, and advanced degree opportunities. The small grants assistance to private sector and civil society groups is an instrument to provide financial support to USAID's local partners.

### Inputs, Outputs, Activities:

#### FY 2004 Program:

Increase citizen representation and participation in democratic processes and economic activities (\$2,500,000 FSA). The Strategic Technical Assistance for Results with Training (START) Program supports training in several areas: poverty reduction, gender equality, fiscal reform, community development, NGO strengthening, rural health services, and municipal and national government capacity building. Principal contractor: World Learning, Inc. USA.

Support for civil society and private enterprise development (\$1,850,000 FSA). Thirty-five grants to NGOs and private enterprises will be awarded. With the continued waiver of Section 907, interventions in public administration and policy will be added. To prepare for the Eurasia Foundation's future independence from the USG funding, co-funding was sought and received in FY 2003 from such non-U.S. Government sources as the Open Society Institute (Soros Foundation), World Bank, British Petroleum, Exxon, Chevron, Shell, Unocal, and others. An international arbitration system will be introduced as an alternative to the state court system for solving civil and commercial disputes. Other efforts to ensure autonomy of local civil society groups will be pursued in FY 2004. Principal grantee: Eurasia Foundation.

Program Development and Support (\$1,000,000 FSA, \$415,142 FSA carryover). Funds will be used for program funded staff salaries, project design, assessments and evaluations.

#### FY 2005 Program:

Participant Training (\$2,500,000 FSA). Short and long-term training is provided in Azerbaijan, in the U.S. and in third countries on a variety of topics supporting USAID's strategic objectives. Principal contractor: World Learning, Inc. USA.

Support for civil society and private enterprise development (\$1,831,320 FSA). With the continued waiver of Section 907 expanded interventions in public administration and policy will be added. Principal grantee: Eurasia Foundation.

Program Development and Support (\$700,000 FSA). USAID will utilize these funds to support program-funded staff and other costs related to program design and development.

**Performance and Results:** In coordination with the World Bank, a project on rural infrastructure was implemented to help municipalities plan and manage infrastructure development. Recommendations from a survey conducted to determine techniques to increase the effectiveness of municipalities were

implemented. With support from the Israeli Embassy in Baku and the Exxon Azerbaijan Operating Company, LLC. community groups were mobilized to improve teaching in the schools by using concepts that stress volunteerism and democratic principles. Training was conducted for SMEs to improve their understanding and compliance with tax legislation through interactive training, supported by a database on recent changes to the tax code. With support from BP, International Accounting Standards were introduced to government officials. Small handicraft businesses in rural Azerbaijan learned how to promote and market their crafts. Many jobs were created and traditional handicrafts and designs were preserved.

Continued emphasis on training and the small grants program across the Mission's strategic objectives will increase the knowledge, experience, social, and economic links (social capital) that are vital for the development of democratic processes and equal participation in the economy.