Azerbaijan

The Development Challenge: In the ten years since regaining independence, Azerbaijan has made only an incomplete transition to a democratic polity and a market economy. The democratic process is nominally in place, but supporting traditions and institutions are still in a developmental phase. The governance process is still authoritarian, but not oppressive by regional standards. The country has been unable to take advantage of its substantial petroleum resource base, and some 60% of Azerbaijanis live below the poverty line. The dispute with Armenia over the Nagorno-Karabakh enclave remains unresolved. As a result, about 20% of Azerbaijan is occupied by Armenians and some 800,000 Azerbaijanis are refugees or internally displaced.

Important U.S. interests are at stake. The Azerbaijani citizenry is favorably disposed towards Americans, and the government has strongly supported U.S. anti-terrorism initiatives. Secular Islam prevails, roughly similar to that of the Turks to whom ethnic Azeris are related. However, serious humanitarian, development, and democracy issues exist. Lastly, petroleum resources in Azerbaijan and the Caspian Sea Basin region are of geo-strategic significance.

On the positive side, there are encouraging signs. Rich agricultural resources, petroleum reserves, a well-educated population, and relative political stability augur well. Properly used, petroleum funds can finance Azerbaijan's development. Short-term external assistance needs are considerable, particularly with respect to refugee and displaced populations. However, in the medium-term, if the country's economic potential can be activated, ample public sector resources and strong economic opportunities can facilitate solutions to social problems and provide an economic underpinning to a viable democracy. More negatively, poor political or economic systems could negate the country's potential oil wealth, fomenting internal unrest and inciting outside actors. Although progress has been slow, the government is increasingly receptive to policy initiatives and institutional development supportive of democracy and market economics. An effective USAID program is essential to help guide the political and economic transition currently in process, and clearly serves a wide spectrum of U.S. interests.

The USAID Program: The USAID Program concentrates on three areas - humanitarian assistance, economic development, and democracy. The humanitarian program element targets displaced populations and affected communities. Health services and other assistance are provided, and community self-help is promoted. Economic assistance is directed at the development of market institutions, credit access, business services, helping to restructure private sector operations, especially in the agricultural sector, and competitiveness. Following the waiver of Section 907, USAID has been increasingly active in promoting sound economic and regulatory policy, and market-friendly economic governance institutions. An efficient free market-oriented economic structure will not only advance current economic opportunities but also position the country to make good use of large anticipated petroleum revenues. Lastly, USAID programs promote democratic processes and the rule of law, focusing on civil institutions and public advocacy, the professional development of lawyers and judges, strengthening independent, competent media professionals and outlets, political party development, and electoral process. In all program areas, progress has been steady, and targets have been met or exceeded. USAID's strategy envisions an increasing shift of program resources from humanitarian activities to democratic process and economic development.

Other Program Elements: The country program receives important support from global and regional USAID programs. A regional Caucasus farmer-to-farmer program funded through P.L. 480 proceeds operates in Azerbaijan. The program provides short-term technical assistance to increase farm and agribusiness productivity and incomes.

Other Donors: Recognizing the need, the political context, and the opportunities present the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), EU, and UN all have a program presence in Azerbaijan. The donor programs tend to be small. Donor coordination seems to work reasonably well, although at an informal level. The USAID banking system reform activity, for example, is integral to larger IBRD and IMF programs. The IMF and IBRD also have a major poverty

reduction activity under design. A number of European countries and international humanitarian agencies have been active in refugee and displaced persons relief. The EU is active in a multiplicity of economic areas including agriculture and environmental programs. The United Nations Development Program has a wide range of small programs - e.g., conflict mitigation, environmental, and poverty alleviation activities.

Azerbaijan PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
FREEDOM Support Act	36,350	43,510	46,000	41,500
PL 480 Title II	2,501	2,239	0	0
Total Program Funds	38,851	45,749	46,000	41,500

STRATEGIC OBJECTIVE SUMMARY				
112-0130 Development of Small and Medium Enterprises				
FSA	8,200	10,300	13,800	14,100
112-0210 Civil Society				
FSA	5,129	5,500	6,000	6,000
112-0310 Humanitarian Assistance				
FSA	9,170	8,900	7,500	8,890
112-0420 Cross-Cutting Programs				
FSA	3,500	3,494	5,750	5,200
TRANSFER			•	•
FSA	10,351	15,316	12,950	7,310

USAID Mission: Azerbaijan

Program Title: Development of Small and Medium Enterprises

Pillar: Economic Growth, Agriculture and Trade **Strategic Objective:** 112-0130

Status: Continuing

Proposed FY 2003 Obligation:\$13,800,000 FSAPrior Year Unobligated:\$4,230,000 FSA

Proposed FY 2004 Obligation: \$14,100,000 FSA **Year of Initial Obligation:** FY 2000

Estimated Completion Date: FY 2005

Summary: USAID's program to accelerate the growth and development of private small and medium enterprises (SMEs), particularly in the agricultural sector, is focused on: expanding access to micro and SME credit; improving business and technical skills; strengthening producer and processor associations; and improving the use of production inputs. With the waiver of Section 907 in January 2002, USAID began implementation of a closely targeted economic reform program focused on strengthening the banking sector, improving financial management practices, and encouraging reform in the energy sector.

Inputs, Outputs, Activities: FY 2003 Program:

Develop sustainable financial institutions that provide access to credit for agricultural producers (\$1,500,000 FSA). USAID will continue to support development of the private sector with emphasis on the agriculture sector by providing loans to farmers and other agricultural producers in nine regions of Azerbaijan. Limited access to credit has been consistently identified as the largest impediment to entrepreneurial development. The program will target nine regions of Azerbaijan that would otherwise be completely devoid of credit opportunities. In 2003, USAID grantees will disburse more than \$3,000,000 in loans to agricultural producers and processors and will strive to maintain a historical repayment rate exceeding 99%. Principal contractor and grantee is ACDI/VOCA (prime).

Improve access to and use of production inputs (\$1,500,000 FSA). Improving the availability, distribution, and application of production inputs is essential to raising crop yields and productivity in Azerbaijan's agricultural sector. Working through associations of input dealers, USAID will provide training and technical assistance to improve the use of seed, fertilizer, animal feed, and crop protection products throughout Azerbaijan. The principal contractor and grantee is International Fertilizer Development Center (prime).

Increase the competitiveness of rural enterprises (\$7,000,000 FSA). USAID will strive to rebuild Azerbaijan's once-robust agricultural sector by identifying products that can be competitive in both domestic and international markets, and by providing technical assistance, training, and technology to nurture the development of these products. Emphasis will be placed on developing a business infrastructure that can support business development, including distribution, marketing, and information exchange systems. Policy-related activities will help Azerbaijan further remove administrative constraints to business growth and support other U.S. assistance to Azerbaijan in World Trade Organization accession. Principal contractors and grantees are to be determined by competition.

Increase access to credit among urban populations (\$2,800,000 FSA). USAID support for agricultural credit is augmented by a program to help meet urban credit needs. Various loan products are offered both to traders and larger producers. In 2003, these programs will disburse more than \$2,500,000. Additionally, the activity will incorporate a new component focused on real estate (mortgage) lending and will provide the first commercial real estate loans in Azerbaijan. Principal contractors and grantees are: Shorebank (prime) and Foundation for International Cooperative Assistance (prime).

Energy sector reform (\$1,000,000 FSA). USAID will help Azerbaijan develop an effective regulatory framework for a commercially viable energy sector. Emphasis will be placed on reforms necessary to enable Azerbaijan to meet World Bank and International Monetary Fund 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. Principal contractors and grantees are to be determined by competition.

FY 2004 Program:

Increase the competitiveness of rural enterprises (\$6,000,000 FSA). USAID will incrementally fund this activity in support of the agricultural sector.

Increase access to credit (\$1,000,000 FSA). USAID will continue to support economic opportunities for vulnerable populations through the provision of micro-credit services. The activity will build upon prior work done in refugee/internally displaced persons areas under the humanitarian assistance objective.

Strengthen the banking sector (\$1,000,000 FSA). USAID will provide support to the National Bank of Azerbaijan in implementing reforms to increase consolidation and capitalization of the banking sector. These efforts will, inter alia, lead to better credit services to SMEs. Emphasis on banking supervision and the regulatory framework governing commercial banks will continue.

Improved fiscal management (\$1,600,000 FSA). USAID will conclude support to the Ministry of Finance in designing, procuring, and implementing a completely automated Treasury Information Management system.

SME training and development (\$2,500,000 FSA). In order to encourage sustainable delivery of SME development services, USAID will develop local business consulting and marketing capacity. Through intensive and targeted training and technical assistance, USAID will enable local consultants and educators to provide needed business development services to local businesses.

Energy (\$2,000,000 FSA). USAID will expand upon work in the energy sector, enlarging and extending sector reform activities.

Performance and Results: USAID private sector development activities continued to provide valued support to Azerbaijani entrepreneurs and SMEs. USAID programs disbursed more than \$5,000,000 in credit to over 2,500 recipients in 2002. USAID credit programs, which boast a 99% repayment rate, are sustaining more than 8,000 local businesses and have led to the creation of more than 2,000 new businesses. Through the provision of training and consulting services, USAID enabled more than 40 SMEs to adopt international standards and better compete for contracts with international firms, mostly in the oil sector.

With the waiver of Section 907, USAID began implementation of a new economic reform program. Already, USAID technical advisors are working with the National Bank of Azerbaijan to introduce better practices for bank inspectors. USAID also has begun implementation of a program to automate Azerbaijan's Treasury.

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112-0130 Development of Small and Medium Enterprises	FSA
Through September 30, 2001	
Obligations	19,220
Expenditures	11,104
Unliquidated	8,116
Fiscal Year 2002	
Obligations	11,045
Expenditures	5,898
Through September 30, 2002	
Obligations	30,265
Expenditures	17,002
Unliquidated	13,263
Prior Year Unobligated Funds	
Obligations	4,230
Planned Fiscal Year 2003 NOA	
Obligations	13,800
Total Planned Fiscal Year 2003	
Obligations	18,030
Proposed Fiscal Year 2004 NOA	
Obligations	14,100
Future Obligations	0
Est. Total Cost	62,395

USAID Mission: Azerbaijan

Program Title: Civil Society

Pillar: Democracy, Conflict and Humanitarian Assistance

Strategic Objective: 112-0210 Status: Continuing

Proposed FY 2003 Obligation: \$6,000,000 FSA
Prior Year Unobligated: \$842,000 FSA
Proposed FY 2004 Obligation: \$6,000,000 FSA
Year of Initial Obligation: 1996

Estimated Completion Date: 2005

Summary: The Civil Society Better Organized and Represented SO is made up of the following main components implemented through seven U.S. organizations: 1) civic education for selected municipalities and their citizens; 2) information, organizational training, and activity support for advocacy-oriented civic and political groups; 3) professional development opportunities for judges, lawyers, election officials, political parties, journalists and municipal leaders; 4) promotion of an independent media; and 5) legislative commentary and drafting assistance.

Inputs, Outputs, Activities: FY 2003 Program:

Legal system enhancement (\$3,600,000 FSA). USAID will support two new rule of law programs with some 6,000 expected beneficiaries. Building upon current rule of law activities, the program will improve the knowledge and skills of legal professionals; enable better representation, prosecution, and defense; and strengthen the ability of civil society to protest corruption and pursue legal rights. The program will address administrative, curriculum, and teaching methodology reforms at Azerbaijani law schools; broaden public knowledge and national debate on legal framework reforms, human rights, and anticorruption issues; provide considerable continuing legal training for legal professionals; and assist the Ministry of Justice with training, legal system information access/dissemination and court management systems. Principal contractors and grantees are to be determined by competition.

Strengthened electoral process (\$1,500,000 FSA). The program will promote the implementation of impartial electoral frameworks through public education and continued technical support for the drafting of a Unified Election Code (UEC) and its implementation. Other elements of the program include training for the Election Commission officials and observers; improvements in the voter registration system; public opinion polling; and support for national dialogue on electoral reforms and civic rights. This program is particularly important in view of the planned October 2003 Presidential and October 2005 Parliamentary elections. The principal contractor and grantee is International Foundation for Election Systems (prime).

Public outreach and advocacy (\$900,000 FSA). This activity will supplement the current civil society capacity-building activity that promotes public interest advocacy. It will improve the ability of civic and community organizations to effectively represent the interests of well-defined constituencies. The principal contractor and grantee is Catholic Relief Services (prime).

FY 2004 Program:

A viable multi-party system (\$3,500,000 FSA). Two new awards are planned in support of political and civic groups working to develop a viable multi-party system. Planned activities include message and platform development; voter contact and constituency relations; management and strategic planning; and candidate nomination procedures.

Empowerment and mobilization of the media (\$1,200,000 FSA). USAID plans to continue the media activity. Access to unbiased and reliable information will be increased through promotion of professionally skilled, financially-viable, and legally-protected print and broadcast media.

Improved capacity for public outreach and advocacy (\$1,300,000 FSA). These two planned activities will continue to improve public interest advocacy and promote public understanding of the role of civil society in Azerbaijan.

Performance and Results: USAID civil society activities resulted in substantially enhanced dialogue between government officials and civil society representatives. The technical ability of legal and media professionals to support civil society rights and interests was strengthened. Further, annual statistics gathered by USAID partners reflects a slow but steady rise in the citizen awareness of civic associations, advocacy groups, and the role of such organizations in the democratic process. Some 4,560 females participated in FY 2002 programs, more than doubling the previous year's total. Despite progress in increasing the number of women participants, societal restrictions on women in Azerbaijani society continue to represent a challenge to including females in USAID-supported activities

In FY 2002, 226 organizations were assisted; 5,929 individuals were provided with advocacy, outreach, ethics, and management skills; 355 advocacy events were organized; 13,807 individuals accessed legal information and resources; 141 media professionals received new skills; and 47 regional media exchanges occurred.

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112-0210 Civil Society	FSA
Through September 30, 2001	
Obligations	14,772
Expenditures	9,616
Unliquidated	5,156
Fiscal Year 2002	
Obligations	7,270
Expenditures	4,107
Through September 30, 2002	
Obligations	22,042
Expenditures	13,723
Unliquidated	8,319
Prior Year Unobligated Funds	
Obligations	842
Planned Fiscal Year 2003 NOA	
Obligations	6,000
Total Planned Fiscal Year 2003	
Obligations	6,842
Proposed Fiscal Year 2004 NOA	
Obligations	6,000
Future Obligations	0
Est. Total Cost	34,884

USAID Mission: Azerbaijan

Program Title: Humanitarian Assistance

Pillar: Democracy, Conflict and Humanitarian Assistance **Strategic Objective:** 112-0310

Status: Continuing

 Proposed FY 2003 Obligation:
 \$7,500,000 FSA

 Prior Year Unobligated:
 \$3,037,000 FSA

 Proposed FY 2004 Obligation:
 \$8,890,000 FSA

Year of Initial Obligation: FY 1998
Estimated Completion Date: FY 2005

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 2003 Program:

Humanitarian Assistance (\$5,170,000 FSA). 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 contractors and grantees are: Mercy Corps International (prime), Save the Children (sub), International Rescue Committee (sub), World Vision International (sub), Adventist Development Relief Agency (sub), Cooperative Housing Foundation (sub), Pathfinder International (sub), and International Medical Corps (sub).

Organize communities to address self-defined needs. Conflict-affected communities are provided with organizational training and limited material resources. Specifically, the communities will receive training in community appraisal systems, help with the design of local projects and the formation of local implementation groups, and provision of limited material support for their endeavors.

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

Increase access to quality health services. Delivery of health services will be improved through: 1) promoting and strengthening self-sufficient community-based health care systems, including cost-recovery mechanisms, drug revolving funds, and insurance systems; and 2) advancing quality services in the community-based clinics and health services providers. 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 World Health Organization standards in treatment and assist in upgrading their clinics through community participation.

Health (\$2,330,000 FSA). Three hospital partnerships will continue to train hospital-based physicians, using curricula and techniques that are appropriate to the local expertise and resources. Internally displaced persons and refugees benefit through improved public medical services. The principal grantees is the American International Health Alliance (prime).

FY 2004 Program:

Azerbaijan humanitarian assistance program (\$6,990,000 FSA). The SO will continue along current lines with increasing integration of health, social, and economic assistance activities in multidimensional community-based endeavors. Many FY 2003 subgrants are likely to be extended through FY 2004. New subgrants are also anticipated.

Health (\$1,900,000 FSA). An extension of the American International Health Alliance Hospital Partnership grant is planned.

Performance and Results: All relevant targets have been essentially met. The health and well-being of displaced persons has been materially improved; impacted communities have been assisted; and community self-help capacity is being developed. Specifically, in FY 2002, 461 community projects were completed. Participating communities contributed cash, labor, and materials totaling \$732,719, an average of 28% of project costs. While the total numbers reflect some double counting as individuals may have participated in multiple activities, 582,750 direct recipients received community development, health services, and economic opportunities, including trainings and business management consultations, of which 302,594 were women.

Additionally, 187 health providers received and applied training (including 119 women) to improve the community-based clinics and health services. A total of 256,483 individuals received health services at health clinics or other service delivery points. Further, the three hospital partnerships trained over 100 hospital-based physicians, opened a new Breast Health Education Center, examined 900 children with a donated ultrasound scanner, and distributed 78 medical bags with basic equipment and supplies. Lastly, the partnership revitalized primary health care in 15 districts for the benefit of IDPs/refugees, with a special focus on women, children, adolescents, and young people.

:			Azerbaijan
112-0310 Humanitarian Assistance	DA	ESF	FSA
Through September 30, 2001			
Obligations	83	100	87,843
Expenditures	83	100	67,435
Unliquidated	0	0	20,408
Fiscal Year 2002			
Obligations	0	0	8,541
Expenditures	0	0	20,703
Through September 30, 2002			
Obligations	83	100	96,384
Expenditures	83	100	88,138
Unliquidated	0	0	8,246
Prior Year Unobligated Funds			
Obligations	0	0	3,037
Planned Fiscal Year 2003 NOA			
Obligations	0	0	7,500
Total Planned Fiscal Year 2003			
Obligations	0	0	10,537
Proposed Fiscal Year 2004 NOA			
Obligations	0	0	8,890
Future Obligations	0	0	0
Est. Total Cost	83	100	115,811

USAID Mission: Azerbaijan

Program Title: Cross-Cutting Programs

Pillar: Economic Growth, Agriculture and Trade

Strategic Objective: 112-0420 Status:

Continuing Proposed FY 2003 Obligation: \$5,750,000 FSA

Prior Year Unobligated: \$3,000 FSA Proposed FY 2004 Obligation: \$5,200,000 FSA

Year of Initial Obligation: FY 1992

Estimated Completion Date: FY 2005

Summary: There are three components to the Cross-Cutting SO: the Eurasia Foundation Small Loan Program, the Mission-wide Participant Training Program, and the Mission Program Development Support Budget.

Inputs, Outputs, Activities:

FY 2003 Program:

Eurasia Foundation grants program (\$3,000,000 FSA). The Eurasia Foundation, which undertakes programs throughout the Eurasia area, funds small grants aimed at promoting cultural, political, and economic linkages and shared values among countries in the region and with the US. The principal grantee is Eurasia Foundation (prime).

Participant training (\$2,000,000 FSA). The participant training program will provide short-term targeted training in support of programs in economic development, democracy, and health. It also will provide long-term academic training - up to two years in duration, or masters-level - in areas of public health, business and agriculture. The principal contractor and grantee is World Learning (prime).

Program development and support (\$750,000 FSA). USAID will provide funding for the assessment and design of new activities across the entire portfolio.

FY 2004 Program:

Eurasia Foundation grants program (\$2,000,000 FSA). FY 2004 resources requested will continue activities funded in FY 2003.

Participant training (\$2,500,000 FSA). FY 2004 resources requested will continue activities funded in FY 2003.

Program development and support (\$700,000 FSA). FY 2004 resources requested will continue activities funded in FY 2003.

Performance and Results: In FY 2002, The Eurasia Foundation/Azerbaijan (EF) awarded grants to 32 NGOs and private enterprises for a total amount of \$1,000,194. The two major sectors of support continued to be civil society and private enterprise development, but with the waiving of Section 907, EF expanded work in public administration and policy. One notable activity this past year involved the creation of the first independent food-testing lab in Azerbaijan, which contributed to the practice of improved quality standards of small and medium sized enterprises (SMEs) involved in food production. With BP co-financing, the Azerbaijan Association of Lawyers has improved market-driven legal services provided to SMEs by introducing a new clinic-based commercial law course into Azerbaijani universities, and training young law faculty in this interactive teaching methodology. A competition for a trade development program awarded a cluster of three grants to NGOs to support more transparent trade and customs operations. The transparency will strengthen export-oriented SMEs, educate agricultural

producers on safety and quality control, strengthen the ability of consumer unions to advocate for product improvements, and foster public-private partnerships in the agricultural sector.

The groundwork for competitions that will award grants early in FY 2003 to help communities outside Baku tackle local needs is completed. A joint World Bank-EF program on rural infrastructure development will bring municipalities and communities together in three regions of Azerbaijan to prioritize and implement small infrastructure projects. Lessons learned from these pilots will be used in a country-wide World Bank project. Another competition will select an NGO to develop pilots for "socially active schools" that will enable the schools and their surrounding communities to share resources to address local problems.

The participant training program supported all three strategic objectives and improved the performance of Azerbaijanis at work. The participants received training in a variety of development fields such as provision of rural health services, community mobilization and assessment, strengthening of individual NGOs and associations to advocate for NGOs, gender equity, and poverty reduction strategy preparation. During FY 2002, 953 in-country, third-country, and United States technical, informational, and long-term training opportunities were supported across the USAID portfolio. USAID also provided training opportunities for community outreach, legislative drafting and judicial reform, and government capacity-building.

112-0420 Cross-Cutting Programs	FSA
Through September 30, 2001	
Obligations	8,532
Expenditures	4,532
Unliquidated	4,000
Fiscal Year 2002	
Obligations	4,994
Expenditures	2,976
Through September 30, 2002	
Obligations	13,526
Expenditures	7,508
Unliquidated	6,018
Prior Year Unobligated Funds	
Obligations	3
Planned Fiscal Year 2003 NOA	
Obligations	5,750
Total Planned Fiscal Year 2003	
Obligations	5,753
Proposed Fiscal Year 2004 NOA	
Obligations	5,200
Future Obligations	0
Est. Total Cost	24,479