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AZERBAIJAN COMPETITIVENESS AND TRADE (ACT) PROJECT

*ACT Progress Report for FY2012 Quarter 4: July 1 –
September 30, 2012 and Year 2:
October 2011 - September 2012*



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Picture Caption: International Experts discuss problem loan management in Regional Problem Loan Management Workshop organized by the ACT Project in collaboration with the Central Bank of Azerbaijan

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Azerbaijan Competitiveness and Trade (ACT) Project

Progress Report for FY2012 Q4: July 1, - September 30, 2012
and Year 2: October 1, 2011 - September 30, 2012

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the United States Government.

ACRONYMS

ABM	Activity Based Management
ACT	Azerbaijan Competitiveness and Trade Project
AML	Anti-Money Laundering
AmCham	American Chamber of Commerce
AZN	Azerbaijan New Manat
BDS	Business Development Service Providers
CBA	Central Bank of Azerbaijan
COP	Chief of Party
CSO	Civil Society Organization
ERC	Economic Research Center
EU	European Union
FMS	Financial Monitoring Service
GOAJ	Government of Azerbaijan
GOST	Government Standards
HACCP	Hazard Analysis and Critical Control Points
IFC	International Finance Corporation
INR	Initial Negotiation Rights
IPPC	International Plant Protection Convention
IP	Intellectual Property
ISPM	International Standards of Phytosanitary Measures
JAC	Janub Agribusiness Center
LLC	Limited Liability Company
MFA	Ministry of Foreign Affairs
MOED	Ministry of Economic Development
MOF	Ministry of Finance
MOJ	Ministry of Justice
MOT	Ministry of Tax
NBFI	Non-bank Financial Institutions
NGO	Non-Government Organization
ODC	Other Duties and Charges
SCPI	State Committee for Property Issues
SME	Small and Medium Enterprises
SOW	Statement of Work
SPS	Sanitary Phytosanitary
TBT	Technical Barriers to Trade
USAID	US Agency for International Development
USDA	US Department of Agriculture
VAT	Value Added Tax
WP	Working Party
WTO	World Trade Organization

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Project Overview

Sibley International is pleased to present the Azerbaijan Competitiveness and Trade project Q4 and Year 2 Progress Report in accordance with contract number AID-EEM-I-00-07-00003, task order number AID-112-TO-10-00002. This report covers the reporting year and describes project activities completed during Q4 – July 1-September 30, 2012, as well as highlights activities accomplished during Year 2, October 1, 2011 – September 30, 2012.

The ACT project began operations in October 2010 and builds on the work of various other USAID projects previously completed to support similar objectives. The USAID ACT project aims to improve the domestic business enabling environment; develop a liberalized, more transparent trade environment; and improve targeted value chains in the agriculture sector of Azerbaijan. These overall objectives will be additionally supported through the elimination or mitigation of technical and administrative barriers that hinder progress in all three areas.

Formally, the project is divided into the three above-mentioned interconnected and interdependent components. In addition, there are several cross-cutting technical areas that support all three components. These include the development of a public-private dialog to support discussions between the private and public sector to improve understanding of changes; the analysis of costs of various initiatives (legislation implementation, administrative barriers, trade facilitation, etc.) to facilitate the understanding and possible change of various legal and administrative measures through the use of objective cost information; overall monitoring and evaluation to ensure the project objectives are met; and development and implementation of a grants program to support the development of partner organizations in building local institutional capacity.

The project works towards achieving the following as defined in the SOW¹:

- Broad based understanding and acceptance of the need for an improved domestic business environment achieved, involving businesses, universities, associations, alliances, etc.
- Stakeholders active in pushing towards a business environment, sectors especially in agriculture/agribusiness sector
- Improved domestic business environment laws and the implementation of these laws, leading to an investor climate in the nonoil sectors
- Enhanced capacity within the Central Bank of Azerbaijan to maintain stability within the financial sector of Azerbaijan
- Broad based understanding and acceptance of the need for a liberalized, more transparent trade environment achieved
- Stakeholders are active in pushing toward a more liberalized, transparent trade environment

¹ The following objectives are taken directly from the revised SOW issued by USAID in March 2012 through a contract modification.

- Laws drafted, amended, and/or adopted, i.e., World Trade Organization related and targeted business environment laws
- Implementing rules and regulations transparently enforced, e.g., greater transparency with regard to trade, and other corruption fighting measures that will lead to increased exports
- Improved access to market information and agricultural best practices, through academic institutions, professional associations, alliances, etc.
- Adoption of best practices by farmers/businesses in targeted sectors
- Improved access to markets for targeted value chains
- Improved access to finance for firms and farms within the targeted value chains

Project Activities and Accomplishments in Q4 and Year 2

Component 1: Domestic Business Environment Improved

Accomplishments Highlights in Quarter 4 and Year 2 in Component 1

Component 1's efforts to shape the dialogue at various government ministries and agencies gained steam over the course of Year 2. The component contributed substantially this year to policy dialogues on taxes, competition, and property. The component also developed substantial relationships with the various food safety agencies, working with them on improving their food safety inspection regimes. It also worked closely with the Central Bank on activities based management and risk based bank supervision. Finally, it worked with the Financial Monitoring Service on developing an e-learning system and training staff on issues regarding money laundering and terrorist financing.

Key specific results include the following:

- Engaged extensively with the Ministry of Taxes and the Ministry of Finance over the possible amendments to the Tax Code and obtained informal assurances from the Ministry of Finances that several of the project's recommendations (for instance, lowering payroll tax rates and making VAT cash accrual rules more consistent) would be incorporated into the draft Tax Code that would eventually be submitted to the Parliament.
- In response to a specific request from the MOT provided detailed briefing papers on the provision of tax services to the public and how the recently opened Azerbaijani Tax Academy could continue to improve its performance.
- Developed a briefing paper on the development of an active market for agricultural land, which obtained the endorsement of a large multilateral donor and stimulated widespread discussion amongst government officials on the institutional and policy choices regarding these issues.
- Undertook a multi-region, multi-media consultation/advocacy effort on issues facing the country with respect to the direction of competition policy and the ultimate disposition of the Competition Code currently in Parliament, contributing through these efforts to a change of attitude amongst many decision makers as to the need for improving the Competition Code currently in Parliament.
- Developed a comprehensive set of recommended changes (and support therefor) to legislation pertaining to e-commerce, a version of which was submitted to the Cabinet of Ministers for further consultation and development.
- Contributed to the development of the draft law on licenses and permits and the draft law on secured transactions in conjunction with the IFC.

- Undertook a detailed study of the cost and constraints facing persons attempting to start up agricultural based businesses, such as an olive growing business or a fish processing plant.
- Developed constructive relations with five food safety agencies, providing them with training on inspection approaches in line with international best practices.
- Organized and conducted a four-week training on public investment appraisal in conjunction with the Institute for Economic Reform under the MOED, providing high quality instruction to personnel from infrastructure-related government agencies and state owned enterprises, 29 of whom passed the final examination.
- Provided substantial assistance to the Cash Management Department of the Central Bank (regarding cash management and materials handling needs) before this activity was phased out in the middle of Year 2.
- Worked with the Central Bank's Prudential Policy and Methodology Department to develop a new, comprehensive approach to risk based banking supervision.
- Made substantial progress in working with the Central Bank on installing an activities based management system.
- Assisted the FMS in reaching out to civil society organizations to explain the need to combat money laundering and terrorist financing and to clarify how civil society can contribute to this effort.
- Worked with the FMS to develop a comprehensive e-learning system to educate and certify individuals as specialists in anti-money laundering and counter financing of terrorism.

Activity 1.A: Build and Sustain the Case for Economic Reform in Azerbaijan

As agreed with USAID, Activity 1.A was phased out as a stand-alone activity.

Prior to the phase out, the project published a brochure developed jointly with various legal providers located throughout the country. The brochure listed legal service providers (CSOs, donors, and private firms) that could potentially be of assistance to SMEs and agricultural enterprises. This was in response to the project's statement of work that called for it to identify existing mechanisms for supporting SMEs and agricultural enterprises in their efforts to work within the existing legal and administrative environment. Several hundred of these brochures were distributed to implementation partners of the project (particularly those in Component 3) by the end of Year 2 Q1.

Activity 1.B: Facilitate Changes to Business-Related Laws, Regulations, and Administrative Procedures so as to Improve the Business Climate, Particularly in the Non-Oil Sectors

This portion of the report describes sub-activities of the project as delineated by the work plan.

Sub-Activity 1.B.1: Tax Reform

During Year 2 the project developed constructive working relationships with the Ministry of Taxes (MOT) and the Ministry of Finance (MOF). With the MOT, the project provided advice on several issues, among them the provision of tax services to the public and suggestions for improvement of the recently opened tax academy, both of which had been specifically requested by the MOT. By the end of Q3, the project was having extensive discussions on the direction of Tax Code amendments. The project also met with members of the Milli Majlis on this issue, in anticipation of a document being sent to that institution in the spring session.

These discussions were supported by an updated version of the briefing paper on tax policy (to take into account the discussions with the MOT) and particular papers focusing on transfer pricing, minimal rental prices, and promotion of non-cash payments. The project also developed a paper on recommendations related to defining presumptive taxes and provided suggestions related to defining employment and self-employment. These were sent to the ministries and to the Milli Majlis in Q3.

This interaction was supplemented by close coordination with the private sector, particularly the American Chamber of Commerce (AmCham), who likewise considered this a top priority. This was illustrated by the project's participation in a tax conference organized by AmCham in Q3 where senior members of the project served as panel members.

However, while the two institutions were able to agree on several areas, there was not sufficient agreement to bring a package of reforms to the Milli Majlis before the end of the spring session. Instead, at the end of Q4, the government formally announced that it would submit changes to the Parliament, but had not actually done so as the quarter ended. Indications were that several of the reforms suggested by the project (e.g., lowering tax rates for individuals and making the VAT cash-accrual rules more consistent) had been incorporated into the draft that was being prepared for submission.

Sub-Activity 1.B.2: Property Law Reform

Building on the research conducted by two project experts in Year 1, the project made a presentation at a conference organized by the State Committee on Property Issues (SCPI) and thereafter developed a briefing paper on property issues in the agricultural sector.

The thrust of both the presentation and the paper was the same: agricultural land could not be formally bought, sold, or mortgaged because the land that had been privatized more than a dozen years ago had not been re-registered at the SCPI. The causes of this situation stem from an institutional rivalry and overlap between the SCPI and the State Land and Cartography Committee. The presentation and paper offered concrete suggestions on how these problems

could be resolved both with respect to responsibilities over agricultural land and future stewardship over a comprehensive spatial data infrastructure. Finally, they both advocated for a more pro-active government effort to encourage the registration of rights over land on a more systematic basis.

Various officials from the World Bank's real estate reform project expressed informal support for the recommendations in the policy paper. Thereafter, the World Bank endorsed the paper and its recommendations in a letter to the government.

Whatever the ultimate outcome regarding the decisions on how to address property issues raised in the paper, the paper generated substantial dialogue within the government and which is key to moving parties closer to final resolution of the matter.

Sub-Activity 1.B.3: Commercial Law Reform

This sub-activity breaks down into several distinct areas.

Competition Code Dialogue

Early in Q1 the project actively participated in a conference designed to provide members of the Milli Majlis feedback on the draft Competition Code. During that conference, it became clear that although the alternative draft developed by the project had been widely circulated and discussed, it was not necessarily the working draft of the Milli Majlis (as had been suggested earlier by other government agencies). In response to this, the project developed and followed an implementation plan for engaging with the Milli Majlis and the public over the importance of the passage of an effective Competition Code. The project did the following:

- developed the first draft of a letter from the US Ambassador on the Competition Code, which was sent to the Milli Majlis;
- organized an advocacy event in Sheki jointly with the Institute of Economic and Social Innovations;
- sponsored and appeared on a regional television show on the importance of appropriate competition legislation;
- entered into a partnership arrangement with the Azerbaijani Lawyers Confederation to support dialogue with the Milli Majlis;
- sponsored and participated in a TV show in Yevlakh on competition law;
- organized a conference in Mingecevir on competition in conjunction with the CSO, Education for Human Rights; and
- advocated at other events for passage of a progressive Competition Code.

These activities are captured under PMPs 1-2.1 (Direct Exposures of Public Education Advocacy) and 1-2.2 (Indirect Exposures of Public Advocacy).

Although there has not been official activity endorsing the project's Competition Code, it does appear that the actions of the project over the past nine months have raised the awareness of various stakeholders as to the shortcomings of the current draft and the possibility of using the project's draft or some form of it as an alternative.

E-Commerce Legislative Package

In Q1 the project developed and finalized a proposed legislative package on e-commerce, which was submitted to the Office of the President in Q2. This was thereafter circulated amongst various government agencies and ministries.

The package generated substantial discussion within the government, namely at the Ministry of Communications and Information Technology (MCIT) and Ministry of Economic Development (MOED). It eventually was circulated officially through the Cabinet of Ministers.

At the conclusion of Q4, the project was assisting various agencies in addressing the comments made regarding the e-commerce package as a result of the circulation.

Secured Transactions Law Promotion

In Q1 the project began active collaboration with the International Finance Corporation on secured transactions reform, co-sponsoring a conference on the benefits of such legislation in late October. The project followed up this effort by sponsoring and organizing a television show on the subject and publishing an article in the Azerbaijani Press Agency's website in Azerbaijani and Russian. The article was subsequently republished in hard copy during Q3.

At the same time, the Central Bank agreed to formally endorse efforts to develop a draft for submission to the Milli Majlis. In response, the project worked closely with the IFC to develop a draft concept paper. This concept paper led to the head of the legal department of the CBA choosing a clear set of strategies on how to move forward on this draft law.

Law on Licenses and Permits

Early in Q1, President Aliyev issued a decree that called on the MOED to draft a Law on Licenses and Permits. Pursuant to an arrangement with the Ministry of Economic Development (MOED) and the IFC, the project closely reviewed and suggested substantial changes to the draft legislation. The working group at the MOED adopted most of these suggested changes and sent it to the Cabinet of Ministers for circulation.

Since then, the legislation has been returned by the Cabinet of Ministers due to an insufficiently complete inventory of current licenses and permits that was to be appended to the law. Further action on the legislation is pending.

Sub-Activity 1.B.4: Administrative Barriers Reduction

This sub-activity initially encompassed work on business start-up, leasing of land, food safety inspections, and the adoption of regulatory impact analysis methodologies. The activities of leasing of land and the adoption of regulatory impact analysis have been dropped as a result of lack of prioritization of these issues by government counterparts and agreement with USAID.

The project established a partnership with a consortium of a private company and a CSO on business start-up constraints in the olive growing and fish processing sectors. By the end of Year 2, the consortium had developed process maps and recommendations for both sectors. Dissemination of the findings was slated to begin in early next year.

On food safety inspections, the project developed very constructive relations with the five main food safety agencies. Together with the State Veterinary Service and the State Phytosanitary Service, the project jointly developed draft inspection checklists. Other agencies, specifically the Standards Committee, expressed strong interest in the checklists after a seminar the project offered on this subject in mid-July. The project also offered a series of joint seminars for all the food agencies in Q3 and Q4 on HACCP inspections, risk-based inspections, and inspection checklists.

The work with the food safety agencies has been fruitful. By the end of Q4 the State Veterinary Service and State Phytosanitary Service were in substantial accordance on the content and layout of the inspection checklists formally developed with the project. Meanwhile, the State Veterinary Service had begun working with the project on developing an internal order on risk identification and risk assessment.

Sub-Activity 1.B.5: Public Investment Rationalization

In Q1, the project organized and conducted a four-week training on public investment appraisal in conjunction with the Institute for Economic Reform (IER) under the MOED. The group of 29 who completed the program (out of 36 who started) had an attendance record of close to 100 percent.

In addition to those from the Institute for Economic Reform, the participants were from the Ministry of Finance, the Ministry of Transportation, the Ministry of Agriculture, the Ministry of Youth and Sport, the Ministry of Health, the Ministry of Emergency Situations, AzerEnergy Joint Stock Company, AzerSu Joint Stock Company, the State Committee on Urban Planning and Architecture, the Azerbaijan State Institute of Water Management Units Design, the Azerbaijan Scientific Production Association for Hydrotechnical Facilities and Land Development, and the State Oil Fund of Azerbaijan.

The content of the program equaled two graduate level courses in applied economics and finance. Of the 29 participants, 26 received a grade of B or better for the first module (on Financial and Risk Analysis) and 23 received a grade of B or better for the second module (on Economic and Stakeholder Analysis).

This training completed project efforts on public investment rationalization as agreed with USAID.

Activity 1.C: Enhance the Capacity within the Central Bank to Maintain Stability within the Financial Sector

This activity includes work with the CBA proper and with the Financial Monitoring Service (FMS), which is under the CBA but has separate offices and a more specialized mission. Note that even though the work here represents substantial effort with these institutions, activities here will not be measured by incremental change in PMPI 1-2.3 as these two institutions have already been counted as “strengthened” in Year 1.

Sub-Activity 1.C.1: Central Bank Assistance

During the course of Year 2, the project primarily focused on (1) introducing risk-based methodologies into its bank supervisory activities, and (2) introducing activity based management (ABM) across the bank. However, with regards to the cash management system, the project helped the CBA through the bid-opening phase of the procurement of the necessary software. The project also assisted the CBA in developing pre-qualification materials, specifications and a procurement package for the upcoming bidding for the CBA’s new cash center equipment.

Cash management activities were agreed to be phased out during Q2. As part of the phase out, the project helped the bank evaluate bids received from vendors vying to provide the Bank with a cash management system and to finalize the tender for a company to develop the materials handling system at the Bank’s new facility.

The project provided support to the Bank’s efforts to update its approach to risk-based bank supervision. In Q1 it helped the Bank develop an initial concept paper and in Q3 and Q4 assisted the Bank in developing a formal methodology and implementation plan that could be submitted to the Bank’s board.

On the issue of ABM, the Bank and the project worked closely together to integrate the planned work in this area with the Bank’s change-management methodologies. This effort paid off with significant progress being made to develop needed information in Q3 and Q4. By the end of Year 2 an implementation team of CBA staffers had been picked and almost fully trained,

60% of the Bank's employees had been interviewed (in line with the schedule in the expert's TOR), and tender documents from several world class software providers had been submitted.

Finally, at the end of Q4, the project and the Bank, along with the USAID-funded Partners for Financial Stability, organized and held a two-day workshop on problem loans. The workshop brought together approximately 70 private Azerbaijani bankers, central bank regulators, and representatives from the central banks of Kazakhstan and Ukraine on the first day and 17 private bankers on the second. Drawing on inputs from each of these groups, an expert from the United States and one from Ukraine explored how banks and regulators could identify problem loans earlier and more effectively address them in order to minimize losses.

This event contributed substantially to the project exceeding its goal of training 100 people on "improving or working more effectively with the business enabling environment" under Indicator 1.3 during Year 2.

Sub-Activity 1.C.2: Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT)

Training and Outreach

Early in Q2, the project provided training to 10 FMS personnel on database management, to assist them in mining the information they were collecting on a regular basis. This was followed by training on SQL for members of the IT department of the FMS.

The project also provided training to bank supervisors in the CBA's Credit Institutions Supervision Department. The course lasted approximately three weeks (offered in the morning of most work days) and featured an exam at its completion. Of the 29 bank supervisors who took the course, 26 passed.

Finally, in Q4 the project jointly organized with the OECD a roundtable discussion between the FMS and various civil society organizations on the role they can play in the battle against money laundering and terrorist financing.

Development of an E-Learning System and Publication of Legal Text on AML and CFT Issues

The project began to assist the FMS to develop an e-learning system in Q1 with the procurement of an e-learning software package. This was followed by assistance in developing the substantive aspects of the e-learning program in Q2 and Q3. In Q4 the project provided a final review of the substantive aspects of the system and provided additional assistance to manage some of the more challenging technical aspects, such as software re-coding and combining audio, video and power point presentations.

By the end of Q4 the FMS had completed the system to the satisfaction of the organization's director. A formal presentation to private banks and government agencies was planned for early in Year 3.

Issues/Constraints

The biggest constraint affecting activities in component 1 continues to be the lack of political will and a consensus by the highest level of government on reforms that need to take place to improve the business enabling environment. While trade environment reform has been clearly defined through two legislative agendas (issued by the President's office), there is no such "roadmap" for business relate reforms. Support has been provided by technical levels within the various ministries and continues to be the way forward to push for change from within the government agencies. Greater higher level access would of course further facilitate this process.

Project Activities Planned for Q1 FY2013

Commercial Law Reform

- Continue to provide assistance to members of the Milli Majlis considering the amendments to the Tax Code, anticipated to be submitted to the Milli Majlis during Q1.
- Obtain commitments to providing data in preparation of beginning work on developing a property tax model.
- Begin work with counterparts at the SCPI on legislation that will resolve legal and institutional barriers hampering the development of an active market for agricultural land.
- Publish a more academic oriented paper on competition law as part of its efforts to keep the dialogue on this issue active.
- Assist in the organization of an official hearing in the Milli Majlis on competition law and the project will thereafter provide assistance to members as needed on improving the draft.
- Continue to address the expressed needs and questions of various agencies regarding the e-commerce reform package as it gets finalized for submission to the Office of the President.
- Submit a package of amendments to the Central Bank that helps to establish the framework for a modern secured transaction law.
- Provide the Azerbaijani version of the Convention on International Sales of Goods and submit it to the MOED.

Reduction of Administrative Barriers

- Continue consultations with the State Veterinary Service and the State Phytosanitary Service on the draft inspection checklists with the goal of having them made official by the end of Q1.
- Develop a draft risk identification and assessment regulation for review by the State Veterinary Service.
- Sponsor a TV show emphasizing the importance of adoption of the food safety strategy.
- Develop a strategy paper for advocating the reforms recommended as a result of the business start-up study and begin implementation.
- Develop educational materials out of the findings of the business startup study.
- Begin holding events promoting awareness of the educational materials on business startup.

Support to the Central Bank of Azerbaijan

- Continue to support the Central Bank in its process of formal adoption of the Risk Assessment System methodology by its board.
- Work with the Central Bank and Partners for Financial Stability to hold a regional conference on macro-prudential supervision.
- Continue collecting data necessary to establish an ABM system and will assist the Central Bank in choosing the appropriate software and vendor.
- Help the Financial Monitoring Service finalize an e-learning system and to promote it at an event.
- Publish in cooperation with the Financial Monitoring Service a legal text on laws and regulations pertaining to the struggle against money laundering and terrorist financing.
- Support the training of an FMS staffer as a certified Anti-Money Laundering Specialist.

Component 2: Liberalized, More Transparent Trade Environment Developed

Accomplishments Highlights in Quarter 4 and Year 2 in Component 2

During Year 2, ACT Component 2 continued to build on activities launched in Year 1. The component achieved a number of successes in improving the trade environment through promoting and facilitating deeper trade liberalization for both goods and services. Progress toward WTO accession continued with greater confidence built to undertake commitments requested by WTO members. The fact that (i) a working party meeting was held is an indication of progress in legal reforms toward WTO conformity and (ii) bilateral market access negotiations were held is an indication of improved market access commitments. Key specific results in Year 2 include the following:

- Azerbaijan's Ninth WTO Working Party meeting successfully held
- Azerbaijan positioned for its Tenth Working Party meeting
- Action Plan for accelerating the WTO accession process developed
- Offers on goods and services improved
- Three major rounds of bilateral negotiations held with US and two rounds held with other countries (Ecuador, Brazil, Canada, China, EU, Japan, and Norway)
- Azerbaijan positioned to conclude services and goods negotiations in 2013
- Domestic Support Tables for plurilateral agricultural negotiations transformed to meet Members' expectations and advance these negotiations
- Replies to 116 questions raised by EU, Chinese Taipei, Saudi Arabia, and US prepared and sent to the WTO
- Factual Summary updated
- Legislative Action Plan updated
- Half a dozen commitments on rules accepted which will serve to move Factual Summary to Draft Report
- White papers to advance negotiations prepared and discussed with authorities. These covered export ban on scrap and waste of metals and commentary on proposed commitments by WTO Members
- Comparative tables on INR commitments (Armenia, China, Georgia, Russia, Ukraine, and Vietnam) and products worksheet developed to facilitate and advance goods bilateral negotiations
- Draft Law on Anti-Piracy and IP Protection adopted
- Draft Law on Technical Regulations at final stages at the President's Office
- Draft Law on Accreditation submitted to the Cabinet of Ministers
- Draft Amendments to the Law on Veterinary submitted to the Cabinet of Ministers

- Draft Amendments to the Law on Phytosanitary submitted to the Cabinet of Ministers
- A dozen implementing regulations for the new Customs Code developed
- Pilot launched for advancing harmonization with Codex Alimentarius
- Pilot launched for advancing harmonization with IPPC
- Action plan for laboratory accreditation based on ISO 17025 to conduct priority tests developed for two laboratories
- Action plan for moving from mandatory standards to voluntary standards/technical regulations developed
- Action plan for establishing independent regulator in the telecommunications sector developed
- Action plan for establishing a competitive environment in the telecommunications sector developed
- Draft mechanism for expanding the SPS Enquiry and Notification point developed
- Draft mechanism for determining SPS Equivalence developed
- Draft mechanism for administering Tariff Rate Quotas in a WTO-consistent manner developed
- Guidance for implementing the TBT Code of Good Practice provided
- Action plan for moving gradually away from the current system of distortive agricultural subsidies under Amber box toward green box subsidies developed
- WTO Policy Awareness paper developed and disseminated to key policy and decisions makers
- Over 25 WTO related capacity building and awareness events including five TV programs implemented

Activity 2 A: Support to GOAJ on WTO Accession to Achieve Legislative and Regulatory Compliance

ACT Component 2 activities in Year 2 aimed to achieve the following:

- Successful Completion of Azerbaijan's Ninth WP Meeting and Positioning for its Tenth WP Meeting
- Azerbaijan Prepared to Launch Next Round of Bilateral Market Access Negotiations with Improved Offers on Goods and Services
- Increased Political and Private Sector Support for WTO Accession and Related Reforms
- Significant Progress in Bringing Azerbaijan's Trade Legal Framework in Line with Best International Practices [Greater Conformity of the Legal Framework with WTO Agreements and Improved Trade Legal Framework]
- Harmonization with key Codex Alimentarius, International Plant Protection Convention (PPC) Food Safety Standards and other standards well underway
- Improved Institutional Capacity to Support improvements in the Trade Environment

Sub Activity 2.A.1. Trade Environment Legal Reform

During Year 2, ACT provided continuous support in advancing WTO related laws through the legislative process. Assistance in this respect was provided to the following ministries and state bodies:

- Ministry of Economic Development
- Ministry of Justice
- Ministry of Agriculture (veterinary service and phytosanitary service)
- Ministry of Public Health (sanitary-epidemiological service)
- State Committee on Standardization, Metrology and Patents
- Copyright Office
- President's Administration
- Economic Committee at Milli Mejlis

The project maintained a legislative tracking chart for draft legislation in process. The project continuously monitored the legislative process for over 20 draft WTO-related pieces of legislation and offered advice and intervened where necessary to ensure that drafts remained WTO-consistent.

Key progress made during Year 2 as follows. (Please see attached the legislative tracking chart as of September 30, 2012 in Annex 1B):

1. Draft Law on Anti-Piracy and IP Protection was adopted
2. Draft Law on Technical Regulations at final stages at the President's Office
3. Draft Law on Accreditation submitted to the Cabinet of Ministers
4. Draft Amendments to the Law on Veterinary submitted to the Cabinet of Ministers
5. Draft Amendments to the Law on Phytosanitary submitted to the Cabinet of Ministers
6. Dozen implementing regulations for the new Customs Code developed

Sub-Activity 2.A.2. Trade Environment Institutional Reform

Capacity building was a major focus in Year 2. In an effort to improve institutional capacity to comply with, and benefit from, WTO and integration, the following activities were conducted:

Telecommunications Independent Regulator

Adherence to the Telecom Reference Paper is a mandatory requirement for all acceding countries to the WTO. One of the key elements in the Telecom Reference Paper is to ensure the presence of an independent regulator in the telecommunications sector. ACT during Year 2 assisted in the development of an action plan to establish an independent regulator. ACT prepared a report detailing the institutional framework for an independent regulator and the benefits for consumers and investors (qualitative). The framework outlined the major issues

involved in designing a regulatory body, provided a list of notional functions, organizational structure and staffing, and ICT and other needs for effective functioning of the independent regulator, which may vary depending on the decisions on design issues.

In addition to identifying the needs, including legal and institutional aspects, to enable the establishment of an independent regulator in line with best international practices, the project assisted Azerbaijan in understanding the importance and benefits of having an independent regulator, notwithstanding WTO accession, from the point of view of development of the telecommunication sector, attracting investors, encouraging technology transfer, and improving telecommunication services for consumers.

MCIT and MOED agreed to launch the process of establishing an independent regulator in the telecommunications sector and have requested that ACT supports this process in Year 3.

In light of potential WTO commitment to further liberalize the telecommunications sector, ACT assisted in the development of an Action Plan to phase out the monopoly in the basic telecommunications sector covering the following aspects: tariff/pricing policies, privatization and other divestiture options, commercial spectrum/frequencies, licensing issues, interconnection rules, and institutional changes.

The ACT expert discussed the two draft reports with MCIT officials and technical staff and received feedback. ACT further identified gaps and deficiencies of the current framework in comparison with the WTO Telecom Reference paper.

ACT held a roundtable with relevant ministries including MOED and MCIT on drafted paper on June 19, 2012 and held a roundtable with AMCHAM members on June 14, 2012 on WTO accession and telecommunications sector reforms.

ACT followed up with MCIT during Q4 to promote the reforms proposed in the two aforementioned papers.

SPS Equivalence Mechanism

Article 4 of the SPS agreement requires acceptance of the sanitary or phytosanitary measures of other WTO Members as equivalent, even if these measures differ from those of Azerbaijan, provided the exporting member objectively demonstrates to Azerbaijan that its measures achieve Azerbaijan's appropriate level of sanitary, veterinary or phytosanitary protection. Equivalence is based upon the inter-relationship between sanitary measures, regulatory objectives, and levels of protection. Cumulatively, these components provide a framework to evaluate the equivalence of different sanitary regulatory systems, parts of systems, or individual sanitary measures.

ACT educated officials of the Sanitary-Epidemiological Service, State Veterinary Service and the State Phytosanitary Service about the importance of the equivalence process and conducted an Equivalence Workshop on June 11-14 for officials from the Sanitary-Epidemiological Service, the State Veterinary Service, the State Phytosanitary Control Service, the Anti-Monopoly Policy Service of the Ministry of Economic Development, and the Expertise Centre. The workshop guided the participants through the steps needed to determine the equivalence of sanitary and phytosanitary systems and individual measures in exporting countries. This knowledge will enable the participants to implement the practical guidelines for determining equivalence for food sanitary systems, parts of systems, and alternative sanitary measures. In addition, the project compiled a guidance document entitled “Evaluating the Equivalence of Sanitary and Phytosanitary Systems and Measures.”

ACT proposed draft equivalence language for inclusion in the Law of the Republic of Azerbaijan on Veterinary and draft equivalence regulations to support implementation of the Law of the Republic of Azerbaijan on Foodstuffs, Law of the Republic of Azerbaijan on Veterinary, and Law of the Republic of Azerbaijan on Phytosanitary Control.

In conjunction with the Equivalence Workshop, the project held a roundtable to review the draft regulations for equivalence recognition of food sanitary systems, parts of systems and alternative sanitary measures, and the draft written guidance document with the representatives of Sanitary-Epidemiological Service, the State Veterinary Service, the State Phytosanitary Control Service, the Anti-Monopoly Policy Service of the Ministry of Economic Development, and the Expertise Centre. Comments from these agencies were incorporated into the final draft document for circulation.

SPS Enquiry and Notification Point

The WTO SPS Agreement requires the establishment of an SPS Enquiry and Notification Point (SPS ENP) to handle enquiries and notifications related to veterinary, phytosanitary, and sanitary/food safety measures. Countries are not allowed to have more than one SPS ENP. Azerbaijan established at the Ministry of Agriculture an SPS ENP with a role limited to animal and plant health. There is a need to expand this to cover sanitary measures prepared by the Ministry of Public Health Sanitary and Epidemiological Service as well. In Year 2, ACT assisted in the development of a draft mechanism for cooperation and coordination between the Ministry of Agriculture and the State Veterinary Service, the State Phytosanitary Service, and the Sanitary-Epidemiological Service and for greater involvement of private sector. ACT met with the State Veterinary Service, the State Phytosanitary Service, and Sanitary-Epidemiological Service to capture the current status of the SPS ENP and presented to the three services in a roundtable the draft mechanism. ACT also met with officials of the three services and the Ministry of Agriculture to finalize the mechanism for adoption.

TBT Code of Good Practice

One of the main agreements of the World Trade Organization (WTO) system is the Agreement on Technical Barriers to Trade (TBT). Accession to the WTO requires the adoption of the Code of Good Practice stipulated in the WTO TBT Agreement. This will allow stakeholders, particularly the private sector, to participate in the process of development and adoption of standards² and ensure that draft standards are published for comment by domestic stakeholders. During this quarter, ACT launched the process to assist in developing model legislation detailing a mechanism for implementing the TBT Code of Good Practice.

Laboratory Qualifications for Accreditation under ISO 17025

ACT launched work toward assisting in qualifying one laboratory to become accredited to test in five priority areas. During Q4 of Year 2, ACT assisted in developing an action plan for qualifying two laboratories to implement ISO 17025 and provide guidance and training on good laboratory practices and ISO 17025. This will provide facility for certification of Azeri goods to increase export potential and facilitate the import process.

ACT delivered an introductory seminar on ISO 17025 to laboratory professionals working at key Azerbaijan laboratories as well as officials of the State Committee on Standards, Metrology, and Patents, Phytosanitary Service, Veterinary Service, Sanitary-Epidemiological Service, and the Ministry of Economic Development. ACT conducted a quick assessment of three select laboratories and identified the most qualified laboratory for accreditation by regional or international bodies. An action plan was developed to qualify the selected laboratory for accreditation in performing the following five priority tests:

1. Pesticide residues
2. Patulin
3. Aflatoxins (B1) and total aflatoxins (B1, B2, G1 and G2)
4. Heavy metals (namely lead and cadmium)
5. Food additives

ACT provided and discussed the action plan with selected laboratory and organized a two-day training seminar (31 June – 1 July) for Laboratory staff of two selected laboratories (four persons from State Vet Service under the Ministry of Agriculture and four persons from Republican Epidemiology and Hygiene Center under the Ministry of Health) to build their capacity to implement the requirements of ISO 17025.

² The use of the word standards refers to “voluntary” standards rather than technical regulations which are by their nature obligatory.

WTO-Consistent Mechanism for Tariff Rate Quotas

ACT conducted a quick evaluation of US and EU Tariff Rate Quotas (TRQ) regulations and assisted in understanding these two models and developing ideal regulations for administering tariff rate quotas taking into account applicable aspects of US and EU TRQ regulations. The project discussed US and EU models and ideal regulations in a roundtable with representatives from MOED and the Ministry of Agriculture. ACT worked closely with MOED on developing draft WTO-consistent TRQ regulations reflecting best practices for administering tariff rate quotas.

National Residue Monitoring Plan

To initiate cooperation between multiple food control agencies and to increase food safety in Azerbaijan, the project assisted in developing a National Residue Monitoring Plan focusing on priority contaminants (pesticide residues, heavy metals, aflatoxins, patulin, and food additives) in selected food of plant origin (apples, tomatoes, cucumbers, pomegranate, hazelnuts, pomegranate juice and apple juice). Through one-on-one meetings with food control agencies and several roundtables, a final draft of the Plan was developed for submission to the National Codex Commission for approval.

Additional Capacity Building

In addition to the events above, the project delivered additional capacity building seminars and roundtables including the following:

1. July 16, 2012: Held Roundtable WTO SPS Notification and Inquiring Point Activity Coordination Mechanism for responsible employees of Ministry of Health and Ministry of Agriculture.
2. July 12, 2012: Held Roundtable on TBT Code of Good Practice for staff of State Committee on Standardization, Metrology and Patent.
3. June 19, 2012: Held Roundtable on Telecom Negotiations for representatives of MOED, MFA and Ministry of Telecommunications (MCIT).
4. June 11-14: Conducted an equivalence workshop for total of 9 officials from the Sanitary-Epidemiological Service, the State Veterinary Service, the State Phytosanitary Control Service, the Anti-Monopoly Policy Service of the Ministry of Economic Development, and the Expertise Centre.
5. March 15, 2012: Held Roundtable Intellectual Property to build awareness about best practices related to anti-piracy with the participation of employees from MOED, State Copyright Agency and State Committee on Standardization.
6. February 28, 2012: Held Roundtable Conversion of Mandatory Standards to Voluntary.
7. January 26, 2012: Held Presentation on WTO TBT Agreement and Changes in Standardization System for the employees of State Committee on Standardization, Metrology and Patent.
8. January 18, 2012: Held Roundtable on Tariff Rate Quota for representatives of the Ministry of Economic Affairs and Ministry of Economic Development.

9. January 18, 2012: Held Roundtable on Subsidies for representatives of Ministry of Economic Development, Ministry of Agriculture and Ministry of Foreign Affairs.

Sub-Activity 2.A.3. Sanitary and Phytosanitary Standards Harmonization

The current standards governing food safety in Azerbaijan are largely based on the standards of the former Soviet Union. Harmonizing with Codex Alimentarius and IPPC (International Plant Protection Convention) standards is critical to enable WTO accession and improve compliance with international safety requirements and quality standards. This will improve compliance with import requirements in the Eastern European and EU markets and increase export potential.

During Year 2, the project assisted in launching pilot projects to adopt international standards, particularly those related to Codex Alimentarius, the International Plant Protection Convention (IPPC), and reduction of mandatory standards.

Codex Alimentarius

With the assistance of USAID, Azerbaijan became a Member of Codex Alimentarius and established during Year 1 a Codex contact point at the State Committee on Standards, Metrology, and Patents. A Codex Commission consisting of relevant state bodies and headed by the contact point was also established. The Commission includes representatives from the State Veterinary Service, State Phytosanitary Control Service, the Sanitary-Epidemiological Control Service, and the Ministry of Economic Development. During Year 2, the project worked with members of the Commission on launching the harmonization process with key Codex standards, particularly those which apply to a large number of products. The project also focused on the standards that are critical in terms of food safety and which increase capacity to export. The focus was on the following two key Codex standards:

- Maximum Residue Limits (MRLs) for Pesticides - CAC/MRL 1;
- International Code of Practice General Principles of Food Hygiene (CAC/RQ1-1969, Amd. 1999, Rev. 1997 and 2003)

The project provided training on understanding these two Codex standards and their application and engaged in this process all members of the Codex Commission, Azerbaijan Institute for Standards, private sector and consumers union. Three roundtable meetings (07/02/2012; 09/02/2012; 10/02/2012) of the Technical Working Group on food safety were held, which included all aforementioned stakeholders. As a result of this effort, the Phytosanitary service has started to update "Hygienic Standards for Pesticides and Nitrates in Environmental Objects" for pesticides based on Codex MRL/1.

International Plant Protection Convention

Azerbaijan has not officially adopted the standards of the International Plant Protection Convention (IPPC) -- International Standards of Phytosanitary measures (ISPMs). However, the State Phytosanitary Service was prepared in Year 2 to work with ACT to harmonize with key ISPMs standards, particularly those which enhance export opportunities. In Year 2, ACT built the capacity of the State Phytosanitary Service and assisted in developing guidelines for conducting commodity pest risk assessment based on the following ISPMs:

- ISPM 2 (2007) Guidelines for pest risk analysis;
- ISPM 11 (2004) Pest risk analysis for quarantine pests, including analysis of environmental risks and living modified organisms;
- ISPM 21 (2004) Pest risk analysis for regulated non-quarantine pests; and

In addition to the Guidelines themselves, the project assisted in developing a legal mechanism for incorporation by Reference of ISPMs 2, 11 and 21 in other normative documents. Six training seminars were delivered to build the capacity of technical staff of the Phytosanitary Service:

- Three seminars on understating respectively ISPMs 2, 11, and 21
- Three seminars on applying respectively ISPMs 2, 11, and 21.

Reduction of Mandatory Standards

Most of the GOST standards in force are currently applied on a mandatory basis. WTO Working Party members expect Azerbaijan to eliminate these mandatory requirements and apply technical regulations only for meeting legitimately defined objectives (e.g., safety, protection of environment, national security).

In Year 2, ACT assisted the State Committee on Standards, Metrology, and Patents in developing a reasonable plan for alleviating the burden on traders and Azerbaijani producers in meeting unnecessary mandatory requirements. The Project assisted in developing a list of actions necessary for transition from mandatory standards to voluntary. Proposed actions include legislative process, conducting inventories of existing measures, and other organizational issues. ACT suggested a list of technical regulations to be developed based on European Directives. In cooperation with the State Committee on Standards, Metrology, and Patents, a roundtable was held to discuss the draft plan. Representatives from the following ministries participated: Ministry of Industry and Energy, Ministry of Emergency Situations, and Ministry of Economic Development.

The State Committee on Standards, Metrology, and Patents expressed appreciation for this work and requested that ACT continue assistance in moving forward through identifying key products for which technical regulations would be needed (in line with EU directives). They also

requested guidance and support in developing technical regulations through deciding which current standards are equivalent, partially harmonized, or outdated.

Activity 2 B: Support to GOAJ on Procedures and Mechanics of WTO Accession

Sub-activity 2.B.1. WTO Accession

Azerbaijan's WTO Ninth Working Party (WP) meeting was held on February 24, 2012 at the WTO Secretariat in Geneva, Switzerland. Azerbaijan's Delegation was headed by Deputy Minister of Foreign Affairs, Mahmud Mammadgulyev. HE Mr. W. Lewalter, Germany chaired the meeting, which included over a dozen officials from key ministries and state bodies. The following WTO Members participated in this meeting: Armenia, Australia, Canada, China, Chinese Taipei, European Union, Indonesia, Japan, Korea, Nepal, Norway, Oman, Paraguay, Saudi Arabia, Switzerland, Thailand, the United States, and Ukraine. Over sixteen EU Member countries attended this meeting including representatives from the Czech Republic, Estonia, Finland, France, Germany, Latvia, Romania, Slovakia, Spain, and United Kingdom. In addition, the following observers attended: Afghanistan, Belarus, Ethiopia, Kazakhstan, the Russian Federation, Uzbekistan, and Yemen.

The meeting agenda addressed the following items:

- i. Review the state of play in market access negotiations;
- ii. Continue the examination of the Azerbaijan foreign trade regime on the basis of replies to additional questions raised by members and draft factual summary;
- iii. Review of legislative developments; and
- iv. Consider the next steps in the work of the WP.

This meeting represented a step forward in laying out remaining reforms for WTO conformity. The meeting was a good forum to stress the need to accelerate legal reforms and to address some of the remaining policy issues such as export duties, prohibition on export of scrap metal, harmonization of excise duties, application of VAT, and the commitments related to prohibited subsidies. Azerbaijan showed some flexibility with respect to Other Duties and Charges. Appropriate commitment language will need to be formulated to close on this pending issue. The issue of developing vs. developed country was largely absent during this round.

Members expressed a genuine effort to help Azerbaijan in closing its accession process. Azerbaijan has also come to realize that further delays in its WTO accession do not serve its interests. Azerbaijani officials at the meeting also voiced a need to advance reforms and take further actions to satisfy Members' requests connected with market access. The Deputy Minister of Foreign Affairs, Mahmud Mammadgulyev requested that USAID ACT assist in

developing a roadmap to move the process forward in an organized, timely, orderly, and coordinated manner.

The Project Senior WTO Advisor attended as an observer the Working Party meeting and prepared a Note summarizing the proceedings of the WP meeting, focusing on points raised and analysis of next steps. ACT also developed an ambitious draft roadmap (around 30 pages), as requested by the Deputy Minister of MFA, with a target date for completion of accession negotiations by the end of September 2013 (as revised). Discussions with officials of MFA and MOED are ongoing to finalize the roadmap and agree on final and intermediate target dates for completing remaining WTO-conformity legal reforms as well as negotiation steps, especially regarding market access negotiations on goods and services.

ACT Support in Preparation for Ninth Working Party

In addition to support provided in FY 2010 in answering replies to questions raised by the US and the EU, ACT assisted in the following in FY 2011 to further support the Working Party meeting held in February 2012:

- developing opening remarks by the Deputy Minister of the MFA for the Ninth Working Party meetings
- reviewing and commenting on the Factual Summary which will form the basis for discussions during the Ninth Working Party meeting
- updating ACC/4 on domestic agricultural support for the base period of 2008-2010 and revised table was also submitted to the secretariat
- updating the legislative action plan

To build confidence in addressing a number of WTO-inconsistent policies for advancing the accession process, the team presented to MOED and MFA the studies completed at the end of FY 2012 with regard to excise duties, VAT exemption for agricultural producers, and export duties. In addition, ACT assisted in developing an action plan for moving gradually away from the current system of distortive agricultural subsidies under Amber box toward green box subsidies.

The project assisted in packaging and submitting other supporting documents for the WTO Ninth WP meeting including existing and draft legislation related to IP (Intellectual Property), TBT (Technical Barriers to Trade), and SPS (Sanitary and Phytosanitary Measures) and customs:

1. Decree of the President of the Republic of Azerbaijan On measures to upgrade issuing of special permits (license) for the types of entrepreneurship activity in the Republic of Azerbaijan
2. The Law of the Republic of Azerbaijan On state registration and state registry of legal entities

3. Decree No 91 of the Cabinet of Ministers of the Republic of Azerbaijan On rates of custom duties on export-import operations in the Azerbaijan Republic
4. Resolution 156 of the Cabinet of Ministers of the Republic of Azerbaijan For conducting the state veterinary surveillance over the production, procurement, keeping, processing and sale of animals, animal products and raw materials, as well as circulation of feed and feed additions
5. The Law of the Republic of Azerbaijan On intelligence and counterintelligence activities
6. The Law of the Republic of Azerbaijan On Medication
7. The Law of the Republic of Azerbaijan On natural monopolies
8. The Decree of the President of the Republic of Azerbaijan #283 On making amendments to some orders of the President of Azerbaijan on the privatization of state property
9. Resolution № 343 of the Cabinet of Ministers of Republic of Azerbaijan On the stage-by-stage certification of products (work and services)
10. Decision of the Cabinet of Ministers of the Republic of Azerbaijan No.189 On Amendments to Decision of Cabinet of Ministers dated April 12, 2001 No. 80 on “amount of customs duties for import-export transactions and customs fees for customs clearance in Azerbaijan Republic
11. Resolution No. 247 of the Cabinet of Ministers of the Republic of Azerbaijan On Approval of Rules Ensuring State Control over Formation and Application of State Regulated Tariffs (Prices)
12. Resolution № 3 On tariffs regulation of giving origin certificate to juridical and physical persons by State Service under the Control to Consumption Market under the Ministry of Economic Development
13. The Tax Code of the Republic of Azerbaijan
14. The Law of the Republic of Azerbaijan On making amendments and additions to the Law of the Azerbaijan Republic On trademarks and geographical indications
15. The Law of the Republic of Azerbaijan On Banks
16. The Law of the Republic of Azerbaijan On Insurance Activity
17. The Law of the Republic of Azerbaijan On Telecommunication
18. The Order № 155 of the State Committee for Securities under the auspices of the President of the Republic of Azerbaijan On Rules for turnover of securities of foreign issuers in the Republic of Azerbaijan
19. Resolution № 42 of the Cabinet of Ministers of the Azerbaijan Republic On approval of the “List of goods, as well as works, services, results of intellectual activities, falling under export control according to their nomenclature
20. The Law of the Republic of Azerbaijan On provision of intellectual property rights and fight against piracy
21. Decree of the President of the Republic of Azerbaijan № 292 On Additional Measures for Regulation of Circulation of Goods Civil Circulation of which is Restricted
22. Regulations of the Central Bank of the Republic of Azerbaijan No 06/05-847 On Foreign Currency Operations by Residents and Non-Residents in the Republic of Azerbaijan
23. Document on The rates of state duty for issuance of permissions regulating international motor transportation on the territory of the Republic of Azerbaijan.
24. Azerbaijan Contaminant Levels : Mycotoxins

25. EU-Azerbaijan Contaminant Levels Comparison : pesticides

26. Model Phytosanitary Certificate confirmed with Decree of the Cabinet of Ministers of Azerbaijan Republic, № 280

The ACT project arranged and funded the trip for the following persons to the 9th WTO Working Party meeting in Geneva:

- Bakhtiyar Alishev-Head WTO Department at the Ministry of Economic Development
- Gulchin Alasgarova-Head of the Division under the WTO Department at the Ministry of Economic Development
- Metin Akhundlu-Interpreter

ACT Support in Preparation for Tenth Working Party Meeting

To maintain the momentum built as a result of the Ninth WP Meeting, the team rapidly launched assistance in March 2012 toward preparation for the next (10th) Working Party meeting in particular related to preparing responses to questions received by WP Members. The Project assisted in organizing, assigning, and translating the questions for advance circulation to relevant ministries and state bodies. Questions were received from the EU, Chinese Taipei, Saudi Arabia, and the United States.

Meetings with several line ministries were held to provide guidance and assist in understanding the nature of these questions. Concurrently, the Project also initiated its own internal research and analysis to support preparation of replies to these questions. Activities intensified in this area in Q4 and responses were successfully submitted to the WTO Secretariat in by September 2012.

ACT simultaneously continued advising on the need to bring aspects of the foreign trade regime in line with the WTO principles and rules and the acceptance of commitments proposed by WTO Members. ACT investigated concerns raised by Azerbaijan about commitment language (proposed by the US), and moving to the Draft Working Party report³ in December 2012 at its next scheduled meeting. To promote the acceptance or the inclusion in brackets of proposed text commitments, ACT prepared a table listing all proposed commitments in the questions by WTO Members and providing explanation and likely impact of each and, where relevant, the experience of other countries. Note that Azerbaijan agreed to accept in the factual summary/draft report over half of the 13 proposed commitments and leave other proposed language in brackets in the text.

³ The working party report is the final document that describes a country's commitments. Moving to a draft of this document shows progress and willingness of all parties to move closer to final commitments.

In Q4 project experts provided further support on policy-related decisions and plurilateral negotiations commitments. The project prepared a paper related to export prohibitions of scrap metals to be used as a supporting document for a proposed Cabinet decision to eliminate these measures. In order to support progress on multilateral negotiations related to agriculture, the project assisted in retransforming ACC/4 on agricultural support. ACT assisted the Ministry of Agriculture (MOA) in improving understanding of this process and WTO Members' expectations on the need to have complete and transparent domestic support tables where current agricultural support programs are properly classified and accounted for. ACT reviewed the current ACC/4 and identified gaps and deficiencies. Further, ACT assisted in the preparation of a Technical Note, for use by the GOAJ at the upcoming plurilateral, describing the technical assistance programs for agriculture that are funded by international organizations (e.g., FAO) or individual country donors. The ACT agricultural advisor worked with the Ministry of Agriculture and other line ministries to finalize the review and clarification process of domestic support table, ACC/4, and provided comments to the MOA, MOED and MFA. Most of the comments were taken into account, and the ACC/4 was revised accordingly.

Azerbaijan Prepared to Launch Next Round of Bilateral Market Access Negotiations with Improved Offer on Goods and Services

In Year 2, the project continued to build on the momentum achieved in Year 1 toward advancing bilateral market access negotiations and intensified assistance in this direction. Three rounds of bilateral negotiations were held with the US and one DVC in May on financial services and at least one round was held with the following countries: Ecuador, Brazil, Canada, China, EU, Japan, and Norway. This included meetings in February (during the last WP meeting), April (during the Economic Commission meeting), and in July in Geneva (separate bilateral meetings), as described below. A lot of support was provided by the project in order to help Azerbaijan build confidence with WP Members that it was making improvements in its goods and service offers. This process included several revisions and submissions over the year of the offers facilitating the bilateral meetings.

During Year 1 and the first quarter of Year 2, ACT assisted Azerbaijan in developing in-depth understanding of trends, commitments, and the experience of other relevant WTO countries in negotiating bilateral market access on services. In Year 2, as with goods, major progress was made in advancing these negotiations. Azerbaijan's services offer was improved to the extent that key, first time offers were made in areas not previously presented, and the country returned to an earlier (better) offer that was removed in 2008. For example, Azerbaijan had refused to table an offer specifically in the energy sector due to the significance of this sector in its economy. This year Azerbaijan tabled an offer in the energy sector for the first time. In addition, Azerbaijan was reluctant to clearly offer "direct bank branching" and avoided binding more than one year entry of intra-company transfers. Now the offer is improved on both issues.

Audiovisual services are a core deal breaker for the US in all accessions. In 2009, Azerbaijan removed the commitment contained in its offer on the grounds of sensitivity, changes in the MOED and pressure from the EU to remove the subject from the offer. This year Azerbaijan re-introduced an audiovisual services offer. In Year 2, Azerbaijan also improved its offer in other sectors such as telecommunications, express delivery, and professional services. In terms of other services offers, the project WTO experts examined drafting for new potential services offers in express delivery, auditing, insurance, distribution, and mode 4, providing information on ease of making commitments in light of new developments in recent accessions for most of these sectors.

Subsequent to the February WP meeting, ACT continued assistance to support further revisions of offers on goods and services for submission to WTO members, particularly the US, during the first week of April with the aim of facilitating another bilateral round of market access negotiations with the US at the fringe of the US-Azerbaijan Joint Economic Commission on April 17-18, 2012 in Washington DC. In this regard, ACT provided clarifications to MOED on a wide number of issues related to goods and services and assisted in the integration of line items related to sectoral initiatives including the information technology agreement, chemical harmonization, scientific and medical equipment, pharmaceuticals, civil aircrafts, and agricultural equipment.

In support of furthering bilateral goods negotiations (particularly agricultural), the project assisted in preparing a comparative table for US INR (initial negotiations rights) for the following countries: Armenia, China, Georgia, Russia, Ukraine, and Vietnam. In addition, the project provided technical support in identifying and incorporating the tariff codes for key sectoral initiatives.

Subsequent to these meetings, ACT continued further support with the aim of enabling another round of bilateral negotiations before WTO summer recess. ACT facilitated the process of reducing the list of agricultural sensitive goods and in focusing on making substantive additional concessions in the agricultural goods offer. This was supported through a further elaboration on the INR comparative tables for agricultural goods, analysis of trade and production of agricultural products (in comparison with the INRs for other countries) to begin analysis to narrow the list of Azerbaijan sensitive products. The project provided a new worksheet at the request of the MOED for the MOA to include key agricultural production, imports, exports, in relation to U.S., EU, Canada, Australia and New Zealand INR lists. The exercise aimed to assist in a better discussion of priorities, real sensitivities and a narrowing of the list of sensitive products in preparation for the next bilaterals.

In terms of sectoral commitments, the project expert worked with MOED to review scientific equipment, medical and civil aircraft approaches and technical problems with Azerbaijan tariff

lines (tariff lines were not consistent leading to different understanding of products actually listed). The project also facilitated MOED access to relevant technical support to work on SIC (Standard Industrial Classification) headers and arranged back up technical support to rectify mistakes in descriptions in the last Azerbaijan offers in those sectors. In addition, the project assisted MOED and MFA with points and arguments for the chemical harmonization tariffs sector for use to convince line agencies to accept the full sectoral initiative. To facilitate progress in this area, the expert prepared and discussed with MOED and MFA a table of Azerbaijan chemicals export destinations, which includes major chemical producing countries. ACT reviewed applied rates for chemicals lines, analyzed with MOED Azerbaijan's applied rates on imports, and analyzed exports of the sectoral chemicals lines.

During Q4, the ACT project continued support to enable the next round of bilateral negotiations at the fringe of the anticipated Working Party meeting planned for early December 2012, such as preparations to engage in a first time product by product discussion of agriculture tariff offers and in relation to narrowed domestic sensitivities, review of responses by relevant agencies in Azerbaijan on various services sectors, advice to MOED about the content and suggested further questions to the relevant agencies where contradictions existed. Also, the experts reinforced arguments to prevent the latest agency comments to ratchet back offers from those already tabled.

Throughout Year 2, ACT continuously provided clarifications and comparative analysis on goods and services offers and facilitated communication between USTR and Azerbaijan leading to significant progress in the offers and therefore in these negotiations.

Activity 2 C: Political and Private Sector Support for WTO Accession and Related Reforms

In Year 2, the ACT project continued efforts to build political and private sector support for WTO accession in both Baku and a number of regions, including Gabala, Masalli and Qakh. This was accomplished through seminars, media, dissemination of awareness materials, and direct meetings with policy and lawmakers in the Milli Mejlis and at the President's Administration level. Meetings were held with the following: Azer Amiraslanov, Head of the Department for Agrarian Policy Issues of the President's Office and Ziyad Samadzade, Head of the Economic Committee of the Parliament and other members of the Committee. The Project also met with the Head of the Economic Policy Department, Mail Rahimov, of the Office of the President to discuss WTO and business related issues. With the Head of the Agro-policy department of President's Office project representatives met to discuss WTO accession, food safety, and inspections and institutional changes in agriculture management system. In addition, ACT organized and participated in five TV programs during Year 2.

The project also developed a targeted policy awareness paper on WTO accession which was shared with key policy and decision makers at all levels. The paper covered the importance of accelerating WTO accession and likely negative impact if accession is further delayed. The paper provided comprehensive coverage of remaining policy and legal reforms as well as the challenges related to market access negotiations on goods and services. The paper highlighted in qualitative terms the implications of implementing remaining steps. The main objective of this paper was to empower decision makers to take decisive steps to resolve policy issues hindering the accession process. The paper was presented to a number of key government officials including Azer Amiraslanov, the Head of the Department for Agrarian Policy Issues at the President Administration.

There was not any indication during Year 2 of any reduced support for WTO accession within the public or private sectors. On the contrary, the government was more responsive this year than previous years by replying in a timely fashion to questions and improved revised offers.

Throughout Year 2, ACT continuously engaged relevant ministries including MOED and MFA in discussions about eliminating key policy issues hindering WTO accession. The following is a list of key WTO awareness events held by the project in Year 2 including in Q4:

1. September 22, 2012: Public interview for Azerbaijan Ictimai Public TV channel about the importance of services liberalization for growth, diversification and development as well as importance of progress of Azerbaijan toward joining WTO.
2. September 13, 2012: TV program in Public TV forecasted on WTO and its effects on the economy of Azerbaijan. ACT experts Elkhon Mikayilov and Rahat Toktanaliyev gave interviews for this program.
3. July 5, 2012: TV program was broadcasted through the Sheki TV channel on WTO and the private sector for the one hour "Social Life" program. In the program, WTO, its accession process, effects, cost of delaying accession, misunderstandings about WTO, challenges of the accession process and dispute resolution were discussed.
4. June 29, 2012: AmCham monthly luncheon on the topic of intra-corporate transferees and the WTO. Discussed intra-corporate transferees as a concept found in WTO practice outside of migration concepts and as a possible trigger for AmCham's consultations with government to address entry visa and permit issues of circulation of personnel.
5. June 28, 2012: ACT expert held an awareness meeting with ASAIF members (Azerbaijani students associations of alumni and students from foreign university) on WTO accession June 28, 2012.
6. June 28, 2012: Regional event on WTO in the Gakh region with the participation of around 18 enterprises and farmers. The speakers of the seminar were ACT project staff and representative of the Ministry of Economic Development, Mirza Aliyev, and a representative of the city Excom. In the event important aspects of WTO accession and its effects and challenges to companies were described and discussed.
7. May 17, 2012: Regional event on WTO in the Gabala region with the participation of around 17 enterprises and farmers. The speakers of the seminar were ACT project staff and a representative of the Ministry of Economic Development, Mirza Aliyev.

8. May 15, 2012: Seminar in Caucasus University for University professors and students to discuss WTO accession and its impact on Azerbaijan.
9. May 5, 2012: Participated in the international conference on "Free Market Road Show: Azerbaijan at a Crossroads" hosted by the Friedrich Naumann Foundation South Caucasus as a guest speaker on May 5.
10. May 2, 2012: Participated as speaker at International conference held by Sabit Bagirov on entrepreneurship development funded by CIPE. Delivered a presentation on Azerbaijan's WTO accession status and challenges.
11. February 17, 2012: Held a WTO roundtable discussion with 10 members of the economic committee of the Parliament.
12. January 21, 2012: TV program called "Economic Forum" program in ANS TV on WTO and Agricultural Subsidies. Participants: ACT experts Elkhan Mikayilov and Garry DeGorter.
13. November 21, 2011: Held a presentation from ERC on trade facilitation--export and import barriers.
14. November 26, 2011: TV program in ANS TV forecasted on WTO Accession and Standardization System. Participants: Elkhan Mikayilov – ACT, Ibrahim Babayev – State Committee on Standardization, Metrology and Patent
15. November 26, 2011: TV program on WTO and standardization (ANS TV).
16. October 15, 2011: TV program in ANS TV forecasted on Export Costs and Barriers. Participants: Elkhan Mikayilov – ACT, Gubad Ibadoglu – ERC, Fuat Rasulov – Khazar University, Galib Togrul – ERC

Activity 2 D: Reduction in the Cost of Trade⁴

The Project, in partnership with ERC, held a private-public roundtable to discuss the findings and recommendations of the import/export process mapping and analysis. The roundtable was



ERC presents the results of a comprehensive study of trade facilitation--export and import barriers

well attended by officials from a number of ministries and state bodies (including Ministry of Agriculture, Ministry of Economic Development, Ministry of Tax, State Committee on Standards/Metrology/Patents, Parliament staffers); representatives from diplomatic missions and international organizations; civil society organizations, private sector representatives, and media. The

roundtable was productive in terms of educating about problems related to import/export procedures and their

⁴ This activity was eliminated with the Project SOW modification in May. However, some activities that were begun in Year 1 were finished the beginning of Year 2.

impact and in building support for resolving key bottlenecks. A TV program (ANS TV), held in October 2011, was also sponsored by ACT involving ERC to discuss current issues related to import and export, their impact on consumers and producers, and possible solutions to address them. A radio program was conducted by ERC for the same purpose (Azadliq) during Q1. Finally, ERC was interviewed by media representatives and published an article regarding the aforementioned in several online publications.⁵

Issues/Constraints

There have been no new serious impediments during Year 2 that have hindered progress under Component 2. Although there have been significant improvements in advancing the negotiations process, the legal reform process continued to move slowly due to its nature in Azerbaijan. The project planned to assist during Year 2 in developing implementing regulations for TBT, SPS, and WTO related laws. Because the relevant laws were not adopted in Year 2, this work has been shifted to Year 3. In addition, ACT during Year 2 assisted the Ministry of Justice in reviewing implementing regulations for the new Customs Code which were developed by the State Customs Committee as per Presidential Order. However, these regulations did not match the regulations that ACT identified as priorities for Year 2. Priority customs implementing regulations will be shifted to Year 3 along with related institutional reforms. ACT continued to face challenges in engaging the State Customs Committee directly and continued to work with other agencies along the legislative process to support movement of customs related legislative reform.

Project Activities Planned for Q1 FY2013

During the first quarter of Year 3, ACT will:

Legal reforms:

- Continue support to all draft legislation with focus on the following main priorities: draft law on technical regulations, draft amendments to the Law on Standardization, draft law on trade remedies, draft law on customs tariff, draft amending law on food products,

⁵ The articles can be found at the following links: http://www.musavat.com/new/%C4%B0qtisadiyyat/113104-%C4%B0DXAL_V%C6%8F_%C4%B0XRACDA_%C4%B0NZ%C4%B0BAT%C4%B0_BARYERL%C6%8FR_A%C5%9EKARA_%C3%87IXARILIB, <http://www.azadinform.az/news/a-12407.html>, http://qafqazinfo.az/AZ%C6%8FRBAYCANDA_IDXAL_V%C6%8F_IXRACDAKI_BARYERL%C6%8FR...-8197-xeber.html, <http://www.azadinform.az/news/a-12407.html>, <http://az.salamnews.org/az/news/read/94720/itm-in-ekspert-grupunun-apardigi-tedqiqatlarin-yekunu-ictimaiyyete-accediliqlanib/?r=1>, http://www.teleqraf.az/index.php?option=com_content&view=article&id=4000%3Aqtisadi-tdqiqatlar-mrkzi-daha-bir-aradrmasn-tqdim-etdi&catid=58%3A55&Itemid=41

draft amendments to Decree 782; and draft amendments to the Law on Veterinary and the Law on Phytosanitary.

- Continue support in reviewing draft implementing regulations for the recently adopted customs code as requested by the Ministry of Justice and/or the Office of the President.
- Assist in further development for regulations related to intellectual property and trade remedies law.
- Develop draft amendments to the Law on Procurement (concerning e-procurement) and the Law on Telecommunications.

Institutional development:

- Launch support to implement action plan for laboratory accreditation.
- Launch implementation of action plan to establish telecom independent regulator.

International standards:

- Continue support for Codex Harmonization.
- Continue support related to IPPC standards.

WTO Accession process:

- Support, participate and report on the Tenth working party meeting and develop action plan for next steps subsequent to the meeting.
- Assist in revising the Factual Summary.
- Provide continuous support regarding bilaterals on goods and services.
- Assist in updating legislative action plan.
- Continue support to Agricultural Plurilateral Negotiations.
- Conduct WTO awareness events.

Component 3: Targeted Agricultural Value Chains Improved

Accomplishments Highlights in Quarter 4 and Year 2 in Component 3

During Year 2 a strategic change of program direction was made utilizing resources to reach thousands of farmers and hundreds of companies through targeted training and technical assistance (TA). In order to achieve this ambitious goal, the team conducted much preparation, re-alignment of staffing, hiring of technical experts, and entered into new partnership relationships with regional Business Development Service providers (BDS) during the first two quarters. Much effort was also invested into preparation of the training modules, training materials, manuals and handouts. This resulted in initial progress in the supported subsectors. Activities focused on two major areas: providing support to value chain actors along the chain for targeted products and providing on-farm training and technical assistance to farmers directly to improve productivity, increase production and sales, and therefore improve welfare. The following is a summary of overall results for Year 2⁶. The first table provides a snapshot of results from partner processors after support from the project in year 2.

Table 1: Sample Processor Results by Sector in Year 2

Sectors	Purchases ⁷ (AZN)	Change in Purchases (%)	Sales (AZN)	Change in Sales (%)	Exports (AZN)	Investment (AZN)
Dairy	10,614,240	5	12,442,080	5	N/A	N/A
Pomegranate	1,166,205	20	4,342,504	17	4,238,382	3,494,755
Hazelnut	6,950,000	37	5,128,000	6	4,550,000	131,000
Cold Storages	1,975,000	83	1,654,000	0 ⁸	N/A	119,000
Companies implementing HACCP	N/A	N/A	N/A	N/A	N/A	1,336,226 ⁹
Totals	20,705,445	36	23,566,584	9	8,788,382	5,080,981

⁶ Farmer results are based on a sample farmer survey conducted for the dairy, aquaculture and pomegranate sectors which compares this year's data with last year. Results for apple and hazelnut farmers are estimated based on anecdotal results reported by BDS and local experts in the regions. Processor level information is taken directly from a processor survey of pomegranate, dairy, and cold storage partners.

⁷ Purchases represent what the processors have bought in terms of raw material such as raw milk and apples. This is in contrast to sales which represent the finished product which means milk, juice or fruit.

⁸ Although purchases increased from year 1 to year 2 sales overall for the industry did not grow.

⁹ This number is from Orelay, Canub Agro, Kristal and Sahilali. Data from Interpak was not available at the time of submission of this report. Azerstar investment information is included in the hazelnut sector information. These companies were only requested to provide investment information.

The following table provides a view of farmer results in target sectors over the year with significant increases in production, productivity and sales based on the adoption of best practices by project beneficiaries.

Table 2: Sample Farmer Results by Sector in Year 2

Sector	Population ¹⁰	Productivity Change (%)	Total Production (lt, kg)	Increase in Production (lt, kg)	Value of Sales (AZN)	Increase in Value of Sales (AZN)	Adoption of Practices (%)
Dairy	2,500	8.7	24,487,500	1,968,750	24,372,500	7,515,000	70
Aquaculture	210	21.8	5,687,640	1,017,870	6,300,420	1,290,450	70
Pomegranate	1,250	33.6	20,417,375	5,138,250	2,017,500	170,000	55
Apple ¹¹	1,000	33.0	32,000,000	8,000,000	8,000,000	2,000,000	55
Hazelnut ¹²	1,100	20.0	2,640,000	440,000	3,168,000	528,000	55
Totals	6,060	20.4	N/A	N/A	43,858,420	11,503,450	62

Additionally, the following took place during year 2:

- A total of **1,605 jobs created** including 30 at the processor level.
- Four local BDSs and seven regional local experts (total of 23 people) **covered 37 out of 59 regions of the country with extension support.**
- Training and technical assistance provided to a total of **10,023 participants** of which 9,824 were farmers.
- 26,400 copies of 25 kinds of training brochures in dairy and horticulture printed and are being distributed.
- 200 (113-page) aquaculture manuals printed and are being distributed.
- **85 companies** received targeted technical assistance in the value chain development area, through a total of 380 visits/communications.
- **Northwest Aquaculture Association** registered with 35 members currently.
- 6 companies completed 70% of the process of HACCP implementation.

¹⁰ Population size is estimated based on participation in training and technical assistance activities.

¹¹ Assumptions used for calculating the sales and productivity were the following:

- Production volume before intervention 12000 kg/ha;
- Production volume after the intervention 16000kg/ha;
- Price per kg 0.5AZN;
- Average farm size 2 ha;
- Adoption rate of practices and technologies was assumed to be the same as in pomegranate sector.

¹² Assumptions used for calculating the sales and productivity were the following:

- Production volume before intervention 1000 kg/ha;
- Production volume after the intervention 1200kg/ha;
- Price per kg 1.2AZN;
- Average farm size 2 ha;
- Adoption rate of practices and technologies was assumed to be the same as in pomegranate sector.

- Demonstration farms were established in hazelnut and apple and begun in aquaculture and dairy.
- Five TV shows were broadcasted in four different regions.

Activity 3.A: Identify Subsector that Exhibit Potential for Competitive Growth

The DRC Analysis for Aquaculture was completed at the end of the Q1. The results were disseminated in January and February of 2012. Dissemination activities included holding a workshop on the “Analysis of domestic resource costs of fish farms” that was attended by 30 people, including key officials from government ministries, embassies, and civil service organizations. The workshop was widely covered by the media and generated 13 articles in the press. In addition, a television show was filmed and broadcast that focused on the main trends and constraints in the aquaculture sector in Azerbaijan.

Given that the program is now entering its final year, the ACT project will focus on deeper assistance within its current targeted value chains. Work will continue to expand in the input sector for all of the existing value chains. Assistance in the cold chain sector will also be expanded to the southern area of the country.

Activity 3.B: Improved Competitiveness of Targeted Sub-Sectors

Sub-Activity 3.B.1: Direct Value Chain Assistance

The three selected value chains in the horticulture sector constitute strategic importance for trade and export for the economy of Azerbaijan. The companies engaged in collection, storing and processing of fruit experienced some technical challenges that were addressed by the project in Year 2.

This activity focuses on developing the value chains above the farm gate level, and is targeted at processors, service providers, storage, transportation, and any other elements in the value chain except the farmer. The specific activities include providing direct technical assistance to SMEs in processing and cold storage, capacity building of project BDS partners, cold chain services development, food safety and certification activities, and association development. These activities support indicators 3.2, 3.3, 3.6, 3.7 and 3.8 from the ACT project PMP, related to results directly attributable to partner value chain processors and other participants.

Key accomplishments by value chain, and/or sub-activity are as follows:

Horticulture (Hazelnuts, Pomegranates, Apples)

Hazelnuts

During the first half of Year 2 the project laid the groundwork for working in the hazelnut sector. ACT established partnership relations with GIZ. Thus, together with the German partner the project arranged and facilitated several visits of hazelnut technical experts of one of the largest confectionary producers in the world, Ferrero Rocher. On their visits during Q1 and Q2, the goal of Ferrero experts was to begin the process of introducing safety and quality standards to the hazelnut industry in Azerbaijan to further support quality improvements and therefore export potential. ACT held post-harvest workshops and field trainings for hazelnut producers and processors. During the field visits post-harvest issues were discussed, as well as processing plant storage and handling procedures assessed. The workshops covered post-harvest handling issues and the establishment of an association for hazelnut producers and processors. The implementing partner for hazelnuts, Parviz LLC of Zagatala, got off to an excellent start, completing SWOT analyses, creating a database of input suppliers, developing multi-year business plans, connecting farmers with input dealers, and providing training to farmers on access to finance. With the support of the project, nine farmers gained access to agricultural inputs used in hazelnut production. In accordance with the season the hazelnut producers mainly purchased agricultural inputs necessary for harvesting in hazelnut orchards.

In the final quarter of the second year more in-depth technical support and targeted business management assistance was provided to the hazelnut value chain actors. One of the most important requirements for exporting hazelnut kernels to foreign markets is compliance of the produced hazelnut kernels with international standards. Currently there are no local standards on hazelnut kernels in Azerbaijan. As a result, local processing enterprises do not base their selection and packaging of hazelnut kernels on market driven standards and for the most part sort the kernels inconsistently. Meetings with the processors identified the lack of awareness concerning standards and the need to educate them on this vital subject. The project conducted several workshops on standards with local processing companies and provided technical assistance using the example of the Turkish standard TS 3075. The reason for using Turkish standards is that to date Turkey has been the largest buyer of Azeri hazelnuts.

Several business critical services were provided to hazelnut producers and processors. For example, an extensive strategic development and marketing plan was developed together with the hazelnut processor Nurullah Osmanov. This document will enable the company to plan their activities for the next 5 years, identify new market opportunities, forecast the demand and adjust their production in the most optimal way to increase long-term sales. Moreover, this will grant the company an opportunity to receive loans from the banks and other financial

institutions. The same paradigm is planned to be applied with other interested value chain actors.

The implementing partner also supported farmers and processors in receiving loans. Twenty four farmers were provided information about credit terms of banks and credit organizations. A special list featuring banks, their terms and conditions was created and delivered to the farmers. For example, two farmers were provided with credit for expansion of production and increase of yields in their hazelnut production. One of them received credit in the amount of 1,000 AZN, and another – in the amount of 710 USD.

In partnership with GIZ, the ACT project facilitated a CALIDENA workshop in Zagatala for the hazelnut producers and processors. The purpose of the workshop was to apply the CALIDENA methodology to support quality improvement along the hazelnut value chain. The methodology lines up all the actors of the value chain with the relevant quality services and identifies the main gaps. Based on this information the participants develop and implement an action plan to overcome the quality deficiencies. More than 20 hazelnut farmers, processors, exporters and relevant government agencies participated in the workshop.

Support to hazelnut processors over the year resulted in increases in sales of 6%, purchases of 37% and in exports of 5%. According to ACT's processor survey, sales from partners in year 2 were 5,128,000 AZN and exports were 4,550,000 AZN representing 88.7% of sales.

Pomegranates

Azerbaijan is proud of its exotic and delightful fruit, of which the pomegranate figures prominently or otherwise known as "Azerbaijan's Red Gold". Not until recent years did processors begin to take advantage of the growing demand in the EU and the US for pomegranate juice. In spite of the fact that pomegranate processing is a relatively monopolized sector, there are several processing plants functioning in the country. ACT staff has observed the drastic variance in quality between pomegranate processing companies, ranging from modern type processing equipment to dilapidated and inefficient facilities. Due to the power of global demand for pomegranate products, some factories not meeting international standards for food safety are successfully exporting anyway.

Aznar is a pomegranate processing company in the Goychay region that was identified as a potential development partner early in the program. In Q1 ACT facilitated a training program at the Aznar Company for its employees, and the BDS partner, ARAZ. ACT assisted Aznar in identifying and contacting a leading technological services company out of Israel to conduct an intensive four days of training. ACT provided a translator and participated in training including ARAZ personnel. The training enabled Aznar Company to expand its pomegranate production

utilizing the most efficient and modern methods. The ACT project also recommended Aznar JSC to attend a trade show in Seoul, Korea resulting in identification of new markets. Presently Aznar is holding negotiations with three potential buyers identified in Korea. At the project's recommendation, Aznar purchased \$4 million worth of equipment for extracting pomegranate oil from the seeds.

In Q3 ACT technical staff and partners assisted processors in creating new market linkages. Identification of pomegranate juice buyers from Spain was an example of the project helping beneficiaries with their marketing. ARAZ Business Center assisted Sabirabad Conserve in identifying pomegranate juice buyers in Spain. The processor was linked to the Spanish distributor, Rufamar Iversiones, through the sales agency located in Baku, and the samples were presented. After negotiations over the price of the product, the Spanish company decided to buy 4,500 one-liter glass bottles of pomegranate juice, 23,200 of 0.310 liter glass juice bottles, and 800 of 0.430 liter glass bottles of pomegranate sauce for a total of 34,200 USD from Sabirabad Conserve. The pomegranate juice has been transported to Spain in 20 foot containers. ARAZ Business Center played an instrumental role in facilitation of the deal, developing and translating all the necessary documentation such as invoices and other documents.

During Q4, ARAZ continued providing marketing and sales assistance to the beneficiaries of the program. Annually, Sabirabad Conserve procures about 1,850 tons of pomegranates from farmers. The company exports pomegranate juice, sauce and concentrate to Russia, Ukraine, Poland, Czech Republic and Germany. Having received a new order from a Russian buyer for 60 tons of pomegranate concentrate, Sabirabad Conserve needed steel drums for the concentrate and the supplier of drums needed several weeks to fulfill the order. The situation became intense because the Russian buyer needed the product immediately. Aznar informed ARAZ about their urgent need for the steel barrels. In a short time ARAZ presented Sabirabad Conserve with two proposals for 500 drums – one of which was for used ones from a local supplier. Due to the time constraint, Sabirabad Conserve preferred to purchase used drums. The total value of the purchase was 5,000 AZN. The barrels were delivered to Sabirabad Conserve within a week. Aznar was able to supply the new Russian buyer in a timely manner and the sales value of 60 tons of concentrate totaled 240,000 AZN.

With modern facilities, export oriented processors with a little assistance can go a long way. According to the ACT processor survey, Year 2 showed positive results with large increases in sales of 17% (4,342,504 AZN) and exports of 16% (4,238,382 AZN). Again the largest percent of sales was exported representing 97%. Additionally, employment in the processing plants has increased by 12% due to the expansion of the processing facilities and increased processing

volumes. Most of the investments were made in this sector with plant improvements the largest share and representing 99% of the total 3.5 million AZN for the sector.

Apples and Cold Chain Development¹³

The ACT project concentrated its efforts on the cold chain sector in the apple growing region around Guba. The project investigated reports of technical and market constraints in the sector, and conducted an in depth survey of six cold storage operators. The project shared its findings with USAID, MOED, and GIZ, who all have an interest in the cold storage sector's success. The possibility of additional training was also considered, and future collaboration between the ACT project and GIZ may occur for long term vocational education and some short term stop-gap measures to immediately strengthen the capacity to maintain cold storage facilities.

In Q4 of Year 2, the project participated in the apple festival held for the first time in Guba. The festival was held at the initiation of the Guba Region Executive Power with the support of the Azerbaijani Culture and Tourism Ministry. The event involved executive heads, MPs, representatives of several public and private structures, ambassadors, public figures, scientists, and over 500 guests in general. Among the participants were 80 representatives from 30 countries. Over 20 varieties of apples grown in 26 villages of Guba and surrounding regions were displayed at the festival, and processed products such as various pies and drinks made of apple. The event afforded the opportunity to meet new cold storage leadership, provide information about the project's activities in the sector and invite them to future training events. In addition, the project communicated with many apple farmers and gave out sector specific brochures to continue its efforts to increase outreach on best practices in the sector.

Development of the cold chain industry in Azerbaijan is essential for the growth of pomegranate, apple, and other smaller fruit and vegetable industries, such as potatoes, grapes, persimmons, plums, pears, and citrus. This is a very new industry, with most facilities being less than two years old, and despite rapid growth, still only provides up to 20% of the capacity for current production. Some crops, such as apples in Guba, will see a doubling of production over the next three years, which will continue to fuel growth in cold chain supporting services.

Cold storage operators reported numerous technical issues. This is indicative of the status of the industry, which, as mentioned above, is relatively new. These technical problems are happening in cold storage operations throughout the country, and indicate the need for intensive training for technicians and managers. The government of Azerbaijan, through the Ministry of Economic Development, has taken a renewed interest in the sector, due in no small

¹³ The project does not work directly with apple processors. The focus for this sector has been the cold storage operators, in particular those storing apples in the Guba region.

part to most of the facilities being funded by the government-run Entrepreneur's Fund. Despite technical and market constraints in the last year, there are still more cold storage units coming on line, with some even converting to the much more expensive controlled atmosphere systems, that will continue to put even more pressure on the minimal availability of qualified technicians in the country.

To support this critical link in the value chains for fresh fruit and vegetables, the ACT project hosted cold chain expert, Patrick Hughes, to develop training materials and provide workshops on cold chain management in the related areas. The ACT project conducted targeted technical assistance to over 25 cold chain operators in four regions; developed a report on the cold chain industry in Azerbaijan; and filmed a TV program that discussed cold chain management issues.

The Project technical staff and international expert conducted workshops and technical assistance in Q4 to continue to support improvement in cold storage management. Numerous site visits to cold storage facilities, controlled atmosphere facilities, farms, orchards, and related industry businesses throughout the country were conducted throughout the leading agricultural growth centers in Baku, Guba, Central, and Lankaran areas. Similarly in all these areas, roundtable and workshop meetings were well attended by local area business people. In Lankaran, attendance was approximately 20, in the central area 22, and in the Guba area approximately 18-20 cold storage operators joined the meetings.

As a result of the recommendations provided in the cold chain sector, the storage owners have succeeded in increasing the range of products stored in their cold storages. To date, they have already started to store four or five varieties of products seasonally whereas before they could only store one product all year round. That contributed to providing the local market with locally grown fruit all year round. They learned about the compatibility of different fruits and vegetables which decreased the perishability of goods stored, according to the most conservative estimates by at least 15 %. Additionally, the storage conditions for fruit have been improved and the storage life has been extended. The reduced storage loss (natural and disease-related) in cold storage facilities is currently observed.

Listed below is some factual information about the impact achieved in the cold storage industry as a direct result of the solutions provided:

- Provided direct hands on solutions to mitigate the decay problems associated with Granny Smith and Red Delicious Apples in the Guba - Khachmaz region. These solutions have been estimated to save over 20,000 metric tons of apples during the 2012 harvest and storage season. (If the sales price is 0.80 AZN per kilo, the estimated regional additional sales revenue will vastly exceed 1.6 million AZN for the 2012 season)
- Provided direct hands on solutions to cold chain professionals at their facilities, providing expert guidance on ethylene and CO² gas removal. Assuming the professionals

carry out the advice provided, it will increase by 10% their total product storage numbers. The average facility stores 2,000 metric tons simultaneously. Ten% equals 200 metric tons. If sales price is 0.80 AZN per kilo the estimated additional sales revenue will exceed 160,000 AZN per facility per year, beginning in 2012.

- Over 100 individuals were trained in cold storage operations and maintenance, including at least five regional and national workshops.

Constraints reportedly related to unofficial bans on exports during the year in particular related to the apple sector resulted in difficulties for some of the facilities supported by the project giving mixed overall results to the sector. Not all storage operators implemented the recommendations given. For example, some violated critical procedures by making multiple entries to the controlled atmosphere chambers. Another constraint was lack of knowledge on the compatibility of different products and for this reason they lost the opportunity to store several products in the same chamber. Consequently, some facilities lost money or made no money over the year. However, certain facilities were quite successful in Year 2 with the adoption of ACT recommendations. In fact two of five cold storage partner facilities that were surveyed increased sales by 100% and 300% compared with last year. Most of the facilities also purchased more raw materials from farmers with an over 83% increase on average compared with last year and made over 140,000AZN investments to expand capacity. In addition, the expansion of capacity and operations led to an increase in employment of 25% for the sector overall.

Dairy

The vast majority of dairy production comes from tens of thousands of farmer families with three to five cows. Constraints like inbreeding depression, extremely low milk yields, insufficiency of the quality of compound feed, lack of planned fodder production and inability of getting affordable loans impede many dairy farmers from growing and graduating into medium sized professional farming enterprises. The limitations at the farm are reflected in the processing industry, which struggles due to lack of consistent quantity and quality raw material with which to work. Recognizing these limitations ACT technical staff developed an action plan aimed at training the farmers on the basics of cattle rearing, balanced nutrition, effective AI practices and proper milk handling.

In the beginning of Year 2, the ACT Project local and international dairy experts held a number of meetings with the farmers, suppliers (feed, medication, equipment etc.), dairy processors as well as government agencies (representatives of the Ministry of Agriculture, State Veterinary Service, the Ministry of Economic Development etc.) to discuss the current state of the dairy sector and identify potential solutions to problems and constraints and opportunities. Based on these discussions, in Year 2 the team focused activities on supporting small and medium farmers as well as small dairy processors and other vital value chain players such as suppliers,

service providers and milk collection centers in the Central and Southern regions, which are important dairy regions. Early in Q2, together with the dairy local experts some 10 series of trainings based on eight topics addressing the needs of regional dairy farmers were developed.

Below are some results from the value chain activities in the dairy sector:

- An extensive list was developed based on data collected through the surveys of feed suppliers, pesticide dealers, equipment suppliers, veterinary and AI services in the Central and Southern regions. This database was instrumental in matchmaking efforts between the players of the dairy industry. Also it was duplicated and distributed to the various groups of service provider in this field.
- In total, over 40 farmers and dairy processors were linked to 23 suppliers which resulted in an investment of about 16,245 AZN. This was a linkage created between three farmers and a portable corral supplier (1,050 AZN), between one dairy processor and a refrigerated tank supplier (2,100 AZN), between 10 farmers and five feed suppliers (8,520AZN), and between over 15 AI experts and about 30 farmers to perform AI on 63 cows (1575AZN).
- Four farmers in the southern regions were provided with necessary information and assistance in receiving loans that totaled 10,700 AZN.
- Data on feed and milk prices in both regions was collected and provided to milk producers (farmers) and milk collection centers.
- A linkage was developed between the experts of both the Central and Southern regions to allow them to share their experience, advice and recommendations. These experts have attended each other's trainings and technical assistance and frequently shared their data on dairy suppliers, services and other related areas as well as discussed the possible ways of cooperating continuously. Today they continue to maintain a close relationship.

In Q4 implementing partners in the dairy sector became more skillful and experienced in providing business and management development services to the dairy farmers and small processors. Using the database developed in the first months of this year they successfully linked input suppliers with farmers, assisted farmers with receiving loans from banks and financial organizations, and developed strategic, business and marketing plans. Several examples of the provided business services are listed below:

- Linked farmers to feed suppliers and producers; the farmers were assisted in getting quality alfalfa. Consequently, the feed suppliers have made an additional income of 6,520 AZN from sales.
- As a part of value chain development activities, AgroTech LLC provided technical assistance to two small dairy farmers linking them to Ashıqlı Credit Union. Following the initial agreement reached with the Credit Union, the farmers who had been assisted in preparing necessary documents for the loan application succeeded in receiving a loan each worth 3,600 AZN totaling 7,200 AZN.

Overall results in the dairy sector showed increases in purchases and sales over the last year of 5% each. Total purchases were 10,614,240 AZN for the year from the ACT partner surveyed.

Aquaculture

Aquaculture is one of the newest and fastest growing industries in Azerbaijan. Within the past year the project has witnessed the establishment several large and medium carp and trout farms. While the industry is growing there is a severe lack of fish farming information and experience as most fisherman are learning at the same time as they begin to operate their facilities.

Recognizing local farmers' need for knowledge and experience, ACT facilitated and supported the participation of four fish farmers, including an ichthyologist and a director of a fish processing company, to a Turkish aquaculture exhibition in Izmir, Turkey. The Future Fish Eurasia fair allowed them the opportunity to learn about new trends taking place, and identify and purchase inputs and equipment that are not available in Azerbaijan. One of the project's leading trout farms, Girkhbulag of Sheki, purchased fish feed, trout eggs, refrigeration equipment, and salting, smoking and filleting equipment. In addition, a Turkish firm will come to Sheki to design a processing facility for them. MS Fish of Baku made an initial agreement to purchase a large volume of flash freezers, refrigerators, fish hauling trucks, and refrigerated displays for

its fish sections in the Bazar Store chain of supermarkets. Therefore, the show was instrumental in helping one enterprise expand from farming to processing and another to increase its processing capacity and to move into the retail sector. In addition to the trade show, the ACT project fish advisory team continued to advise larger companies on business development strategies.

In Azerbaijan the fish processing sector is highly monopolized. In spite of this fact, early in the program the project identified MS Fish as perhaps the only medium-sized and independent fish processing operation in Azerbaijan. With a monthly processing volume of 70 MT, MS Fish is supplying some 1,200 supermarkets and grocery stores in Baku and Absheron with processed fish. Before partnering with the ACT project MS Fish sourced its raw material exclusively from

Success Story

The ACT project received a request for assistance in the death of masses of fish in one of the large ponds in the Salyan region. When the ACT expert arrived at the pond hundreds of dead fish were floating on the surface. The farmer had no idea of the reason. Immediately the expert performed a hydro-chemical analysis of the water and determined the reason for the mass mortality of the fish. The cause was contamination of the pond by ground waters spurring from the neighboring pond. The ACT project's expert assisted the farmer in blocking the ground waters from entering the main pond where the fish were dying. Additionally, with the expert's help, the farmer arranged a new source of fresh water and installed additional aeration into the pond. As a result of these measures, ACT project's efforts prevented the death of over 20 MT of fish. The project's assistance prevented losses valued at 80,000 AZN.

imported products from Russia, Europe, Scandinavian countries and China. ACT staff met with Shamkhal Mammadov, the managing partner of MS Fish, and discussed the potential to source local fish, such as carp (cyprinids), trout, pike, and perch domestically. He also participated in an ACT sponsored aquaculture seminar in Zagatala where he made contacts with local fish farmers. After the seminar, ACT staff facilitated visits for Mr. Mammadov to five trout farms in the NW area. The outcome of this activity resulted in random supplies of fish from two large trout farms. In the future MS Fish is planning to enter into a long term contracting relationships with these farms.

In addition to the above activities, aquaculture expert, Tom Ort, provided valuable advice to MS Fish regarding trout smoking techniques. He provided specific recommendations on cleaning, brining, and filleting of fish and further advice on smoking temperature, packing and shelf-life practices. Technical advisors from the ACT project also assisted in the establishment of a new canning facility at MS Fish which has been operating for several months. The company has purchased and installed a complete retort system. It is capable of producing 5000 of 0.250 kg cans per day. If the processing operated for 6 months it could reasonably can over 200 MT. This product has a 2 year shelf life and could be offered to the market year round. At least 40% of the canned fish is planned to be sourced locally. The estimated volume of annual sales is equivalent to 1,440,000 AZN.

A significant amount of time was spent discussing market preferences and consumer tendencies. The project also provided a great amount information about value added options. The market research clearly showed a huge interest in hot smoked trout. The project provided advice on common brining solutions and packaging. A comprehensive guide for handling and processing rainbow trout and other local species was developed and presented to MS Fish.

In Q4, ACT aquaculture expert Sabir Ganizade supported the establishment of five new carp ponds and one hatchery in the southeastern region of Azerbaijan, and one new trout farm in the Khachmaz region. He used the opportunity to build these farms from the very beginning ensuring that all the necessary measures were taken into consideration beforehand and that the facilities were constructed according to the international modern fish farming practices. This includes siting and selection of the most suitable location, performance of the hydro-chemical analyses of water to identify the properties of the water, drafting the actual design of the farm's ponds/raceways, assistance in selection of species and their ratio, provision of proper stocking density information and the initial assistance in general feeding and raising practices. Establishing the new fish farms, entrepreneurs tend to invest more resources to set up larger farms taking advantage of the principle of the economies of scale. Usually these are integrated farms that also keep brood-stock and have their own incubation for spawning fish, hatching eggs and raising fingerlings. The average size of the new carp ponds is equal to 20 – 25

ha with a stocking capacity of 50 MT of marketable fish, with potential annual sales of 200,000 AZN.

Business Development Service Providers capacity development

At the end of Q2 the ACT project contracted four regional Business Development Service providers (BDS) to conduct the value chain work and farmer trainings in their respective regions. Sets of reporting and monitoring documents and guidelines describing specific work processes were developed by the staff. A workshop for all local experts and the BDS was held in April, where Baku staff made presentations covering operational and technical aspects such as how to hold an effective meeting, the importance of pesticide safety, and computer literacy.

The reporting obligation of the BDS implementing partners was structured on a bi-monthly basis. The initial reports varied greatly, with the best needing only minor clarifications and the worst needing multiple rewrites with the assistance of ACT staff. The value chain specialists worked extensively with the partners to get these milestone reports into good shape. They also assisted with work plan development. The latter sets of milestone reports were better prepared due to targeted mentoring by ACT staff.

During Year 2, every opportunity to invest in the development of the BDS partners was used to train them on technical and business management subjects. Utilizing the international experts and ACT staff skills and knowledge, the BDS were continually trained in technical areas from each of the respective value chains.

For example, in Q4 ACT technical staff visited Goychay, Zagatala and Guba regions where pesticide trainings to the local experts and the BDS representatives were presented. The presentations were on pesticide rates, water usage, and the Tree Row Volume (TRV) calculations. The presentations were designed in a specific manner, so that the trainers in turn could go out and train the local farmers on the related topics.

Association Formation

Throughout Year 1 the ACT project laid the groundwork for association formation and development. Having organized multiple meetings the project identified the farmer groups that were interested in forming associations for collaboration and lobbying purposes. The first interested groups were fish farmers in the northwest region, hazelnut growers and processors in the same region and cold chain operators in the north and Baku area.

At the end of Q1, the Northwest Aquaculture Association received its official registration with the Ministry of Justice. The ACT Project provided assistance in developing the association throughout the year. There have been several key strategic meetings of the association

members where they selected the board of directors and the chairman. The ACT Project assisted in developing the three pronged functioning of the association:

- Education and information. At least twice a month the association organizes training for the farmers in four northwest regions. Farmers get access to literature and individual technical assistance, which is currently free of charge for the members. They also get legal advice from the board lawyer on changes and new regulations in the aquaculture sector.
- Lobbying and protection. One of the main reasons that farmers want to unite is to fight corruption and withstand unfavorable campaigns from the local authorities. In March the association addressed a letter to the Prime Minister requesting the formation of a commission to review the land usage issue that would permit pond owners to continue farming and avoid shut down. The ACT project legal staff assisted in drafting the communication.
- Collaboration. This is a very important aspect of the Association's functioning. In this field farmers participate in consolidated input procurement and consolidated sales, which brings tangible financial and organizational benefits. As nursing season starts, a hatchery owned by one of the founders of the association will sell the carp fingerlings at a discount to members of the association.

A membership fee structure has also been developed by the board of directors. The membership fee will be on an annual basis and the collection of fees is planned to start soon. In addition, the key members are currently working on developing the bylaws and the organizational chart of the association.

In Q3 the central implementing partner ARAZ took the lead in launching the association formation process for pomegranate farmers in the Goychay region. Two workshops were held with interested farmers, each about 15 – 20 people. Araz's association development expert provided a thorough presentation. The Goychay region was selected first, since there are larger, industrial pomegranate producers there versus the smallholders in the Sabirabad/Imishli area. Future association development activities are planned, and will be completed in conjunction with the ACT international association development expert.

The international association expert will work with the aquaculture association and interested farmer groups to share international experience in the association formation and management. The outcome of this assistance should be the increased knowledge of association governance and improved skills to form and propagate the services of the associative groups to the relevant industries in addition to formation of at least one more organization in the ACT targeted sectors.

Food Safety and HACCP Compliance

HACCP (Hazard Analysis Critical Control Point) is an international standard adopted by the CODEX Alimentarius. HACCP outlines the basic requirements for food safety in processing companies and forms the basis for many voluntary standards. HACCP is often cited in technical regulations, especially for certain high risk products, in many countries. This makes it a necessity for companies that want to export especially. Using this standard also provides a means by which companies can ensure that their processing is done hygienically and consistently. In order to implement HACCP in local companies engaged in production of food products, the ACT project initially selected two consulting companies: Azerbaijan Quality Association (AQA) and Azsertifika, and provided necessary training to them. Following the training, the ACT Project together with AQA and Azsertifika identified companies willing to implement HACCP. Through the support of the ACT project, six local companies are currently implementing HACCP standards in their facilities. Quality Association began working with one company, Sahliali, and Azsertifika began with four companies (Orelay, Janub Agro, Kristal and Dostlug) out of which one dropped out later (Dostlug¹⁴). Azsertifika later took on board another two companies (Interpak and Azerstar) for a total of five currently in the process.

By the end of Q4 AQA completed almost 90 percent of the process of implementation in Sahliali, whereas Azsertifika completed on average 70-80 percent in its five companies. In Year 2 the six companies as a result of ACT recommendations made a total investment of 1,336,226 AZN¹⁵ in the form of plant improvements and equipment to support implementation of HACCP. Due to the seasonality of production of some of the HACCP clients, the process of implementation will be completed in the first quarter of the third year.

In addition to supporting implementation of the internationally recognized CODEX HACCP standard in selected companies, the project began supporting the development of a local seal program to recognize local companies complying with basic HACCP and consumer protection requirements. The Consumer Safety Seal program made significant progress in Year 2. A manual for the operation of the program was prepared in Russian and translated into Azerbaijani in Q3. During Q4 the ACT project Food Safety Consultant Anna Vasylenko provided two four-day seminars during July and August. The project provided an intensive course on the food safety seal program to the members of the Azerbaijani Independent Consumers Union. The seminars, attended by 15 representatives of the Union, introduced concepts, elements, and requirements of a modern health and safety assurance system. These were the first two stages of a

¹⁴ This company dropped out from the list of the HACCP companies due to a lack of financial resources to completed needed physical plant changes.

¹⁵ This is data from Orelay, Canub Agro, Kristal and Sahilali. Information from Interpak is not yet available. Information for Azerstar is included in the processor investment information.

comprehensive course. The project plans to hold the last seminar for the members of the Azerbaijani Independent Consumers' Union together with government agencies in the first quarter of the third year where independent experts who successfully complete the training will obtain skills and knowledge on food safety principles and standards. Subsequently they will be eligible to visit enterprises of HACCP clients, where they will be invited to assess compliance with the identified food safety seal requirements. As a result, those enterprises that were positively assessed, will receive a food safety seal with an official consumer safety stamp, indicating that the product is compliant with food safety seal requirements.

The ACT project together with USDA developed three food safety manuals for dairy, beef and fruits and vegetables in Russian. These manuals were published in Russian and translated into Azerbaijani. During Q4 the ACT project was finalizing the editing of the manuals for technical accuracy. The final version will be completed in the first quarter of Year 3.

Activity 3.C: Improve and Expand Knowledge of Agricultural Best Practices

This activity puts the focus on the farmer with the goals of raising production (quantity), productivity (yields), and quality of the targeted value chains. These activities complement Activity 3.B to ensure that all constraints in the value chain are addressed, and in particular the need for processors and traders to be able to source greater quantities and better quality fruit, fish, and dairy products. Specific activities include farmer training on improved farming and animal raising techniques, development of demonstration sites, development and provision of training materials, and potential assistance in developing the public and private agriculture extension system in Azerbaijan. These activities support indicator 3.1, which is the number of farmer trainings that have been provided with USG support and 3.5, which is change in productivity, in the ACT Project PMP.

There are hundreds of thousands of families in rural Azerbaijan that are engaged in small horticulture orchard cultivation as their main occupation. The majority of these people are neither professional farmers, nor do they have thorough knowledge of good agricultural practices. Most of them have no access to an agronomist/expert's services in their field in their respective region. Given these constraints virtually in every sector of agriculture, multitudes of farmer families are left to their own limited knowledge and experience. ACT's technical staff and regional partners have witnessed that the only training these farmers are exposed to is through their own trial and error. Frequently the effect of these mistakes is devastating and fatal to the small and medium farmer's enterprise.

With the objective to make training available to interested farmers, starting with the second year, and based on agreement with USAID the ACT project made a strategic change to its

extension and education objective. The core focus was on providing extension training (on-farm training) and technical assistance to the farmers directly. With the purpose of having a greater reach, seven local experts were hired and four BDS were contracted. These became a regional extension program of the project. The main idea behind the farmer trainings is to hold informal and site-based training sessions often followed by providing specific technical assistance at the farm where the gathering takes place. This training by demonstration is the most effective way to provide training. Having developed specific training modules segregated by seasonal topics, the trainers aim to communicate all the training topics to the same farmers. This way, farmers reach the comprehensive level of knowledge in their field of occupation.

The project has made farmer training and technical assistance available to 63% of the country, geographically, covering 37 out of 59 regions during Year 2. The graph below shows the percentage breakdown of beneficiary participants by region.

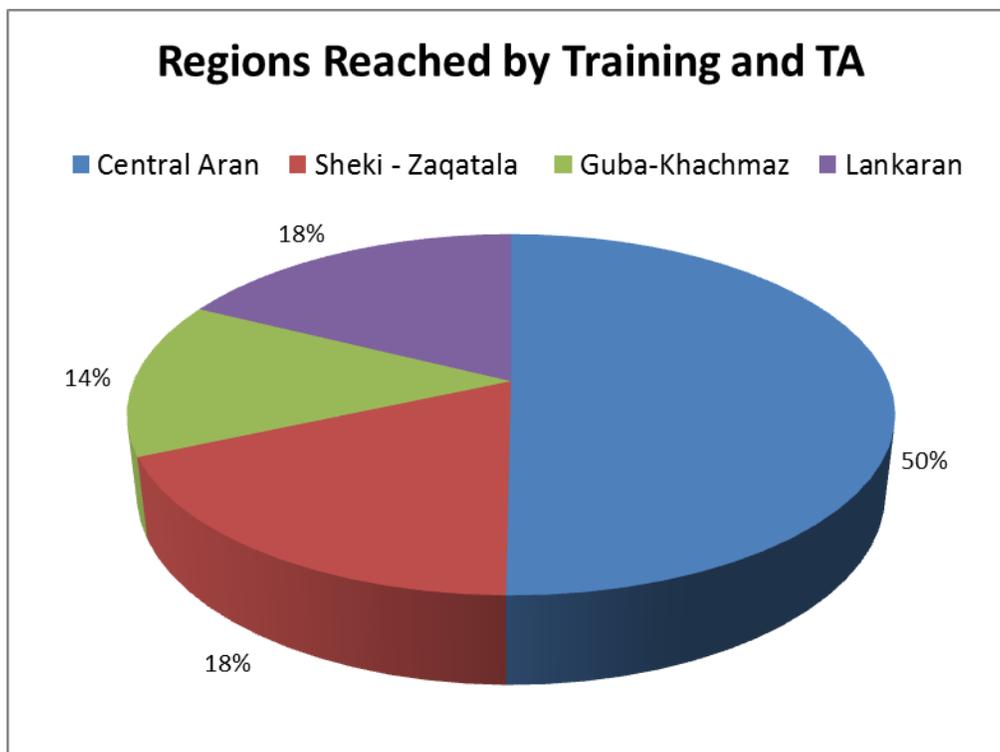


Diagram 1: Geographical coverage of regions through farmer training and technical assistance

In addition, an agriculture extension expert ensures that local experts are all using effective extension techniques, uniform and effective training materials, and coordinates farmer training efforts among local experts and implementing partners. To date, preparation and printing of over 24,600 brochures, pamphlets and other training materials for dairy and horticulture sectors were completed. Also, for the first time, an extensive, 113-page aquaculture manual

was developed by the ACT local expert. The manual is unique to Azerbaijan as it describes the various types of fish farming practices under specific local conditions.

Starting small in the beginning of the year, through the joint efforts of Baku staff, regional local experts and the BDS partners the project reached over 10,000 training participants. Male participants constitute 88% and females 12% of this number.

Training Received by Sector

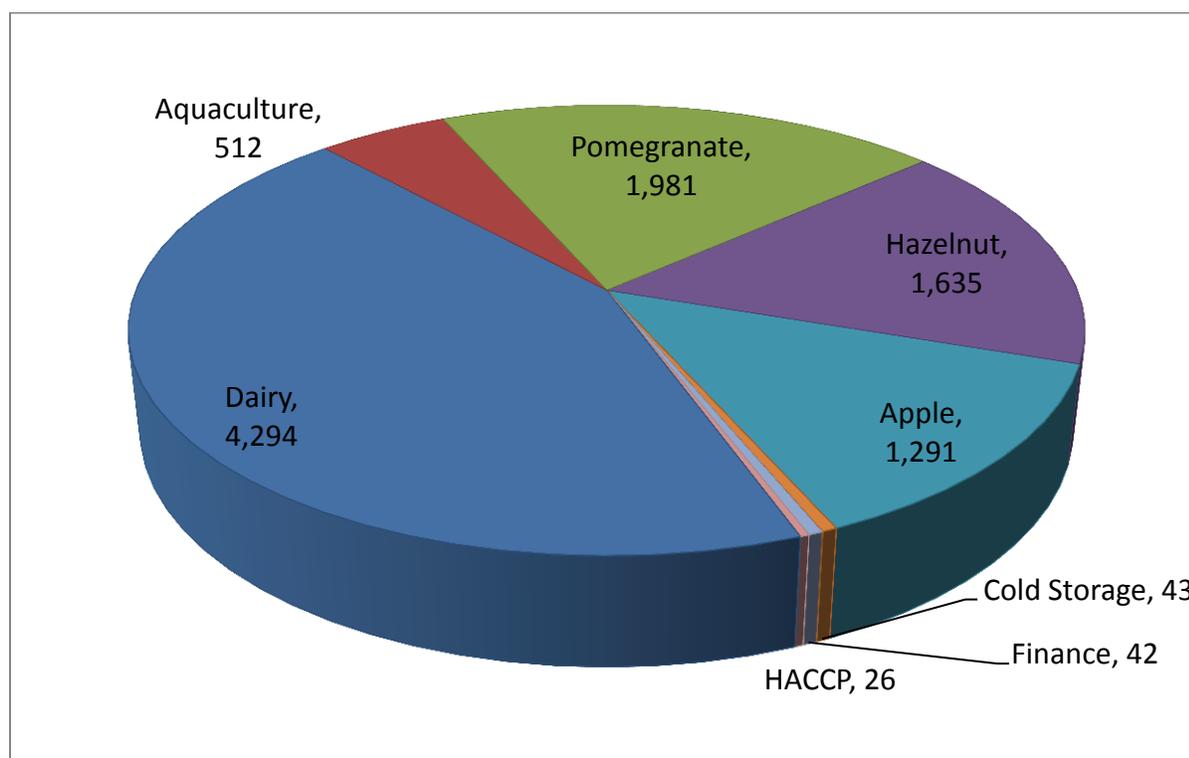


Diagram 2: Number of participants that received training and technical assistance by sector/topic

The project purchased and distributed training equipment for its horticulture (pruning shears, saws, and sprayers) and aquaculture (tool kit, water quality measurement) local experts. Supervisory visits were made to all of the local experts, and intensive training of the trainers was conducted for the dairy and horticulture local experts and implementing partners.

Horticulture

Farmer training and technical assistance in the horticulture sector constituted 49% of the overall ACT training numbers in Year 2. Thus, the project trained 1,981 farmers in the pomegranate value chain. ARAZ, the implementing partner for the pomegranate sector, and the

sector's local expert reached thirty-two villages of Goychay, Kurdamir, Sabirabad and Agdash. These are some of the activities performed in the pomegranate field:

- Setting up a new pomegranate orchard: assessment of land preparation, soil and climate requirements,
- Pruning: tree shaping (single trunk, multi stem bushes) advantages and problems of the different tree shape,
- Control of root suckers (chemically or mechanically), importance of pruning,
- Selection of varieties: identification of the right varieties in relation to market requirements,
- Application of fertilizers NPK,
- Pest and disease management, pesticides application schedule, recommended chemical treatments, pesticides safety and irrigation methods in the pomegranate orchard,
- Calibration of sprayers, green pruning, preparation for harvesting,
- Post-harvest handling.

Abandoned Pomegranate Trees



Pruned, Cultivated and Replanted Pomegranates



Production of Pruned Trees



Success story

The success of farmer training is now apparent in many areas. The best example of ACT's success in helping improve production on the farm is in Goychay and in the pomegranate sector. This year when project trainers first hit the fields, the ACT Local Expert in Goychay trained farmers to start pruning their abandoned orchards to bring them back into production. Numerous farmers followed the local experts' advice. The result was that pomegranate trees that produced little or no fruit in the past few years are now producing 10 to 15 kilos of fruit per tree. This production is expected to at least double again next year as trees start building better productive branches. Neighboring farmers are seeing these results and are now asking for the same help on their farms. (See pictures above).

The hazelnut training and technical assistance reached 1,635 farmers in Year 2. The major hazelnut regions were Zagatala, Balakan, Gakh and Oguz. The farmers from 30 villages in these regions participated in trainings and the technical assistance. Topics of training in hazelnuts were:

- Guidelines for seasonal (spring) trimming/pruning
- Biological features of hazelnut and proliferation methods
- Cultivation of the soil around the hazelnut trees
- Explanation of vegetative irrigation norms for hazelnut
- Best fertilizing practices
- Agro-technical services for young hazelnut orchard
- Seasonal (spring) trimming/pruning in the young hazelnut orchard
- Significance of organic fertilizing in the orchard
- Irrigation of hazelnut orchards
- Pest management in hazelnut orchard
- Preparation for hazelnut harvesting
- Hazelnut harvesting, storing and drying of product

In addition, training activity continued by sending four senior agronomists to four training sessions provided by Ferrero in Samegrelo, Georgia. The ACT project also nominated a staff member from Parviz LLC to attend training in Georgia to participate as a trainer in the Calidena method of value chain development sponsored by GIZ. This activity resulted in a workshop that produced a local value chain development action plan for hazelnuts.

Likewise the apple farmers in the west and east-west regions received quality training and technical assistance. Some 1,291 farmers participated in the training sessions organized and held by the joint efforts of two apple industry local experts in 56 villages of Guba, Gusar, Khachmaz, Shabran and Khizi regions. Below is the summary of training topics in the apples sector:

- Land Preparation – technology of planting trees
- Pruning -Tree shaping

Hazelnut success: On January 30, 2012, the farmer Omarov Rustam Omar accompanied the project team to visit his 0.8 Ha hazelnut orchard in Ashagi Tala village, in Zagatala. During the visit, the ACT expert discovered that the orchard had been in bad condition for a long time. No agronomic practices had been followed. The ACT local expert, Mr. Ziyaveddin Aliyev, provided technical assistance in the form of guidance on how to prune the orchard. After pruning was done, the orchard was treated with 1.5 kg of nitrogen, potassium and phosphate (NPK) per tree. In May, the orchard was sprayed with needed insecticides to control mainly leaf rollers and other harmful insects. The orchard was also sprayed with herbicides for weed control a month before the harvest season which was cost-effective for the farmer. Shortly before the harvest period, the project visited the orchard again. Unlike the previous years it appeared to have undergone positive changes. Due to ACT's intervention, during the harvest time it was found that the productivity of the orchard was 30-40% more than it was last year.



- Application of Fertilizers – methods/technology
- Pest and Disease Management, Pesticides application schedule, Recommended Chemical Treatments, Pesticides Safety
- Calibration of sprayers, green pruning, preparation for harvesting
- Post-harvest handling

While the farmer surveys were limited to pomegranate, dairy and aquaculture, certain assumptions can be made about achievements in apple and hazelnut given the overall results. Since on average 55% of farmers in the pomegranate sector are adopting best practices taught by the project, the same assumption can be applied to these two sectors as well. With the adoption of best practices including proper pruning, fertilization and integrated pest management, productivity was estimated to increase by 20% in hazelnuts and by 30-40% in apples with a reduction in rejection rates by half in both sectors. This analysis is supported by anecdotal observations of results over the year in both apples and hazelnuts. These are immense changes in these sectors and support improved welfare of the farmers.

According to general industry standards, hazelnut orchards yield 1 MT per ha of land. However, hazelnut farmers that have undergone more than one training reported that they harvested 1.2 MT per ha. Likewise, in relation to the previous year, the reduction in the percentage of product rejection by the processors has been observed. Thus, if 20 – 25% of hazelnut was rejected in the first year, this number was reduced to 10 – 15%. Although a positive dynamic in product rejection has been observed, it's clear that farmers need more information and assistance in post-harvest practices such as sorting, picking, packing and storing. Generally, the changes in increase of yield among ACT beneficiaries are attributable to the extensive farmer education program that ACT keeps providing to the farmer industry. Following are the topics of specific training and technical assistance provided: orchard establishment, land preparation, soil regulation, climate regulation, fertilizer application, herbicide application, irrigation, and pruning/shaping.

According to our estimations, the total population of ACT beneficiaries in the hazelnuts sector increased their overall production volume on average by 200 kg per ha, and increased cumulative sales by 528,000 AZN compared to the previous year.

Based on the survey results performed by ACT in the pomegranates sector, the overall change in the production volume constitutes an increase of 28%. The increase in the production volume occurred mainly due to the increased efficiency of growing rather than expansion of the orchard area or planting trees with higher intensity. While the number of trees planted per ha increased only 2.4%, production in volume per ha increased 33.6% and volume of production per tree increased 38.6%!

The value of sales per ha increased 16.2% and overall volume of sales of pomegranates increased by 21%, while cost of farming, compared to the identical period of the previous year, for the adequate orchard areas remained unchanged. This resulted in an increase in sales of 9% since last year. There was a 55% adoption rate of new technologies for beneficiary farmers. The topics that farmers found extremely useful and used to implement changes were: orchard design and planning, pruning, soil preparation, amendment, fertilization, tillage and weeding, pesticide spraying methods, pollination, irrigation, harvest and post-harvest handling, and integrated pest management.

In February, 2012, Islam Bayahmadov, The ACT Project Local Expert, provided the farmer Akhundov Elkhan Huseynkhan with the training “The Shaping and Pruning of Apple Trees” in his apple orchard, in the Dashliytag Village of the Shabran Region. During the field visit after the training, the ACT project team discovered that the orchard was not pruned properly and basic agronomic practices were improperly applied. Consequently, most of his crop was damaged by pests and diseases decreasing the productivity of the orchard.

Considering the above-mentioned, the team held a series of trainings in this area. The farmers attended trainings on “soil fertility and irrigation practices” in April, on “sprayer calibration” in May, and on “apple pests and diseases and integrated pest management practices” in June.

In July, the team visited the orchard owned by the farmer Elkhan Akhundov again. Instead of the jungle that the 15 hectare orchard had been previously, the local expert found a productive orchard in superb condition. The orchard was properly pruned; irrigated, fertilized, and other best agronomic practices were applied. The cost of applying pest management practices reduced the farmer’s costs by about 20% as a result of proper calibration of the sprayer. As compared to the previous years, this year the orchard was completely free from pests and diseases.

Because of ACT support through training and technical assistance, the productivity of the orchards increased from 10 tons per hectare last year to 12 tons per hectare this year. For the 15-hectare orchard, that is an increase of an additional 30 tons of apples. As a result the farmer has made extra income of 12,000 AZN.



Due to the extensive training and technical support that ACT project provided in the apple industry, yields in the apple orchards are estimated to have increased from 10 – 15 MT per ha to 15 – 18 MT per ha. Likewise product rejection rates decreased significantly from 30 – 40% to

15 – 20%. Below is the summary of training topics delivered to hundreds of apple farmers in the northern regions: pruning/shaping, fertilizer application, irrigation, pesticide application, pre-harvest practices (e.g., cleaning orchard, green pruning, weeding), post-harvest practices (e.g., picking, sorting, grading, packing, transporting), and calibration (calibrating holes in sprayers).

According to project estimates, the total population of ACT beneficiaries in the apples sector increased their overall production volume on average by 4000 kg per ha and increased cumulative sales by 2,000,000 AZN, compared to the previous year.

Dairy

In Q1, both local and international experts provided dairy trainings and technical assistance to about 410 farmers. To increase efficiency of the education the ACT local and international experts also visited the dairy regions and observed the training and technical assistance to give recommendations for improvements.

In the beginning of Q2, two organizations (JAC from the Southern region and AgroTech from the Central region) were contracted as implementing partners to carry out value chain development activities as well as to increase the number of beneficiaries. Three employees of JAC and five employees of AgroTech were trained by the ACT experts on how to provide farmer training and technical assistance as well as to carry out value chain development activities and provided with necessary training materials. Additionally, the local experts and BDS were regularly provided with recommendations to avoid mutual obstacles caused by overlapping training topics as well as to support the development of the training and technical assistance.

Forage Production, Feed Management (3 parts), Animal Health Care, Calf Raising, Livestock housing, Artificial Insemination, Milking Procedures, Cow Signals and Cow Weight were among the many topics trained in the dairy sector. Dairy sector activities are concentrated in two areas: South and Central. The project provided dairy training and technical assistance in 66 villages in the Lankaran and Masalli regions. The project provided training and technical assistance in the Central area in Barda, Agjabedi, Aghdam and Beylagan regions, in a total of 55 villages. Dairy activities in the past Year were performed in six regions and 121 villages.

Dairy Success: Over the past year, the ACT project trained farmers in the southern region of Azerbaijan. One of these farmers is Agariza Agayev. His farm is located in the Digah village in the Lankaran region. Income from the dairy farm is the main part of the farmer's family budget. Though the farmer has been engaged in farming activities for a long time, his farm is managed based on old rules and no progress is visible.

During initial cooperation with the farmer, the project first had a look at his farm and defined problems and difficulties there. The farmer especially experienced problems with feeding and cattle breeding. As a result, the family could not get enough benefit from the farm making it unprofitable for the family. Cows were of local breed and their productivity was very low. There had been no attempts to improve the breed over time on the farm. The farmer has nine cows, out of which four are milking cows. The farm was producing 4-5 liters of milk per cow (total 4 cows x 5 liters of milk = 20 liters milk per day).

The project invited the owner of the farm to a training devoted to improvement of breeds and proper feeding. In the training ACT experts emphasized that selecting (choosing) the correct ration of feed and giving enough quality feed to animals is the most important step to improving productivity of the animals. Taking part in the training, the farmer also improved his knowledge on cattle breeding. The farmer indicated that he wanted to improve his breeds and wanted help.

Through project assistance a veterinarian and experienced artificial insemination specialist inspected the farm to determine the animals' state of health state to determine the possibility of using artificial insemination on the farm. The veterinary specialist artificially inseminated two cows with the Black and White breed which resulting in the birth of two healthy calves. There are also changes in the quantity of the cows' milk. Before the assistance of the ACT project the farmer had 20 liters of milk per day from his cows. Due to training and technical support the farm now produces 36 liters of milk per day. The produced milk is sold to Pal Sud LLC in the region. So, as a result, the farmer's daily income has increased from 5 AZN to 9 AZN, which creates an additional monthly income of 120 AZN (40%).



As a result of the joint efforts of both the local experts and BDS the following achievements were made over the period of Year 2:

- 4,294 farmers (3,661 male and 633 female) were provided with training and technical assistance based on different topics
- As a result of the technical assistance provided, 2 farmers succeeded in increasing milk production by 10 %, thus making an additional annual income of about 2,640 AZN.
- Seven household dairy farms have been provided with the training and technical assistance on proper milk pasteurization procedures and sanitary-hygienic compliance.
- Over 20 farmers were linked to AI (Artificial Insemination) experts, which resulted in 38 cows inseminated. In total, an investment of about 900 AZN was made by these farmers. Additionally, these farmers were provided with technical assistance on related topics such as caring of artificially inseminated cows, animal health care, proper feeding, etc.)

As a result of the technical assistance provided by JAC experts (proper feed ration formulation, prevention of animal diseases, proper milk storage before sales or processing etc.) one dairy farmer succeeded in increasing total monthly milk production of four milking cows from 600 liters to 1080 liters per month which resulted in an annual increase in income level from 1050 AZN to 1890 AZN. According to the latest ACT farmer survey results in the dairy sector, farmers increased their annual value of milk sales by 22.1% which resulted in total sales of 24,372,500 AZN. This is partially as a result of an increased price of milk, based on improvement of the quality of the milk. (Farmers reduced the practice of diluting milk with water, especially when supplying the collection points.) However, more importantly, farmers' production of milk in volume yields per cow increased by 8.7% or 105 liters.

The causes of the above mentioned increase in production and sales go parallel with the adoption and application of the new technologies communicated through training and technical assistance. The survey indicates that over 70% of respondents adopted new technologies. Thus, farmers adopted seven different practices and technologies over the year. Farmers indicated that the most useful training was on improved feeding of concentrate and supplements, improved fodder production and technologies of artificial insemination.

Aquaculture

Since the initialization of the regional assistance program, the aquaculture expert Sabir Ganizade has developed a seven step training module which consists of seasonal topics and is segregated by geographical regions. The module is designed to provide a certain number of training sessions and individual technical assistance (TA) within the period of one year. Within the frame of this training program, Sabir is covering 22 regions, including the following:

- Northwest area: Oguz, Sheki, Gakh, Zagatala and Balakan
- North area: Khachmaz, Siyazan, Shabran, Khizi and Guba

- Central area: Kurdamir, Hajigabul, Goychay, Sabirabad and Agdash
- Southern region: Salyan, Neftchala, Shirvan, Jalilabad, Lankaran, Masalli and Astara

The trainings cover such vital topics for fish farmers as Design of Carp and Trout Farms, Construction of Wintering and Fingerling Ponds, Best Siting Advice, Chemical Content of Water at the Farm, Stoking Density and Ratios, Fish Feeding Ratios and FCR, Identification, Treatment and Prevention of Fish Disease, Hatchery Construction and Incubation at Farm Conditions, Fresh Fish Handling, Semi-processing, Transportation and Marketing.

During the last year nearly 500 farmers participated in training and technical assistance activities in various aspects of fish farming. Aquaculture is a relatively new field for Azeri fish farmers, and for this reason little technical expertise is inherited. This reality makes the ACT project's assistance in the aquaculture field ever more valuable and appreciated in all regions. Fish farmers openly express their gratitude for the training received and readily share their successes due to the implementation of the new technologies learned from the ACT local expert.

Based on the ACT farmer survey, in the aquaculture sector there was phenomenal growth in the industry over the last year. This was expected though, since aquaculture is a relatively new and developing field in Azerbaijan. Thus, production volume increased last year over 30.3%. About the same amount of increase was reported in sale volumes of fish (29.9%). The value of sales increased by 25.8% over the last year, for a total of 6,300,420 AZN. With the increase of production volumes high end trout farmers are looking for new wholesale and retail markets, and reducing prices to attract new market segments and channels for distribution for their product. The price for trout since 2008 has dropped by 75% (from as high as 40 AZN per kg) making it available to a much broader market than before. However, even after such a drastic decline in price, trout farmers still have a 55 – 60% sales margin.

Due to the training on proper feeding and stoking rates, the carp farmers are harvesting 21.8% more fish per ha of pond than they did a year ago. The efficiency in utilizing the available production area was one of the cornerstone principles during training and technical assistance provided to the fish farmers. In the last year, total expenses on fish farms increased 22%, and can be considered a positive tendency related to an increase in feeding. Poor feeding was one of the most prominent constraints early in the program. Through numerous hands on training sessions and field based demonstrations the project convinced farmers to improve feeding practices and move towards planned production.

Since the ACT project is the only real knowledge extension service provider, it is hard to underestimate the impact in the aquaculture sector that USAID is currently having. Ninety-five percent of the farmer survey respondents stated that the only source of advisory and training

services that farmers received was from USAID. Seventy percent of farmers have some or all of the following nine technologies: proper feed formulation (protein, fat and carbohydrate), application of feeding regimes (amount & frequency), pond side necropsy evaluation to quickly estimate effectiveness of regimes, utilization of various feeds using different species of carps/fish, determination of limiting factors of production (O₂, NH₃, CO₂ and etc.), increasing water flow to make fish eat feed easily, application of mitigation plans to reduce design flaws of the facility, using fertilization for boosting food chain, increasing pond productivity by increasing both plankton and benthic production, and liming ponds). One hundred percent of respondents have adopted seven of these technologies at their fish farms. Out of all respondents in aquaculture 21% find the technical assistance and training received by ACT technical staff to be “useful” and 78% find it to be “very useful”.

Sub-Activity 3.C.1: Education/Extension

The Agriculture Training section of Component 3 of the ACT Project showed many results during the second half of FY2012. The project addressed continuing problems such as lack of nutrition for the livestock and fish sectors and the pesticide problems in the horticulture sectors. In Q2, the project conducted training with farmers giving them the basic information they needed to start to improve their farm production. In Q3 it was seen that certain training topics needed to be repeated in all trainings to tackle some of the basic problems in each sector. The last quarter of the year focused on implementing the training and technical assistance as planned which led to the achievement of the target of assisting over 9,000 farmers.

Training in the dairy sector turned its focus to forage production and calf rearing. The training curriculum for dairy called for training in foraging, nutrition, calf rearing, AI, animal health, and cow signals. All of these training topics are dependent on good nutrition. To address this issue the local experts were trained on how to incorporate nutrition into each of these topics. Additionally, the rotational grazing project being implemented in the Barda area was introduced to farmers in Lankaran. The project plans to develop a rotational grazing demonstration that will be in use in Lankaran soon. Finally, all four dairy production regions that ACT is active in will have a calf hutch demonstration project for farmers to see. Farmer beneficiaries were identified in Q4 and will be implemented at the beginning of Year 3. The calf hutches will be built before the calving season in December and January.

Training in the horticulture sector was also refined to bring the trainers and their training to a new level of technical assistance. After successfully learning how to train farmers on sprayer calibration and the use of Tree Row Volume (TRV) as a basis for better pesticide application, the local trainers were also ready to step up their training to a higher level. The horticulture experts will now be incorporating pesticide issues into all of their trainings. For postharvest trainings,

the trainers will help farmers evaluate their pesticide programs by examining fruit for pest damage, and to learn from years of pesticide use to improve the application of pesticides next year. When the trainers train on pruning techniques they will also train on how to measure trees so the farmers know the TRV, a critical number if proper pesticide application is to be achieved.

The farmer training program of the ACT Project began in Year 2 with the strategic focus change mentioned above. The project hired in-house local and regional experts and the contracted regional BDS to implement the new extension and education training program nationwide. The team came together and began providing farm based trainings with a curriculum designed to address the farmers' needs. Starting from scratch, the training team designed and created training brochures, trained the local trainers on farm based training techniques, began focused training on pesticide use and sprayer calibration, found and started work on six apple demonstration plots, moved from basic training in the dairy sector to forage focused trainings, and planned five dairy demo projects. All of this activity has supported improvements in education at the farm level resulting in farmers being better off.

Sub-Activity 3.C.2: Demonstration Farms

Hazelnuts

Early in the program, the ACT project identified the use of demonstration farms as one of the most effective in overall communication of best agricultural practices to local farmers. The ACT work plan for the Year 2 included a target of five demo plots to prepare during the year. To date the ACT project has made significant progress identifying and setting up the demo plots. The one that is already operational is a hazelnut demonstration site in Zagatala that was created as a result of the ACT project's coordinated efforts with the Ferrero company of Italy (one of the world's largest importers of hazelnuts), Azerstar (a local hazelnut processor), and GIZ (provided training and support to agronomists). In late March, the ACT project facilitated the shipment of 1,000 saplings that were donated by Ferrero from its operations in Georgia to the demonstration site that was purchased by the Azerstar company for this purpose on a main road just outside of Zagatala. Ferrero agronomists flew from Italy to oversee the planting and design of the 1.5 hectare orchard. Planting was completed on March 25. In addition to providing shipping, customs clearance, and phytosanitary certification, the ACT project also identified the best location for the demonstration site, and met with the Excom to receive his blessing for the project.

During the summer months the orchard was not properly cared for, resulting in a loss of about 30% of the saplings, main varieties and pollinators. However, after discussions with Azerstar, the ACT project local expert and Azerstar have taken the necessary measures and have

reengaged their commitment to the success of the orchard. Azerstar hired a full-time worker to look after the orchard and weeding and irrigation are being implemented in a timely manner, under the supervision of ACT local experts.

Apples

The ACT local expert for apples, Islam Bayahmadov, in Guba has designed an excellent set of five demonstration plots, with two plots each demonstrating IPM (Integrated Pest Management), one nursery design, and two plots in intensive cultivation practices. These plots will be utilized to show farmers about proper management of their existing orchards (GAP), or to show them new and more profitable ways to support the growth of the apple industry (nurseries), or ways to increase yield per hectare significantly (intensive cultivation).

The two GAP orchards have been pruned; the cut off branches have been removed from the orchard; the pruned parts of the trees have been treated; the soil between the rows and around the tree stem has been tilled; and the soil between the rows has been ploughed and disk-harrowed. The trees have been provided with organic fertilizers and minerals; the orchard has been irrigated eight times; pest management measures against pests and diseases have been taken eight times and the rodents have been repelled twice. All use of fertilizers and pest control is in accordance with the project’s USAID approved PERSUAP. The orchard has been harvested. MoUs with the beneficiaries will be signed shortly to ensure access for training activities. More than 120 farmers have been trained in the GAPs at the demo plot under the project.

Type of plot	Region	Village	Farmer	Size of orchard
GAP	Shabran	Shanahzarli	Shamil Mammadov	0.5 hectare
GAP	Guba	Barli	Kamran Gurbanan	0.5 hectare
Intensive	Shabran	Shanahzarli	Shamil Mammadov	0.5 hectare
Intensive	Khachmaz	Armudpadar	Gurban Garibov	0.5 hectare
Nursery	Guba	Timiryazev	Shirin Ilyasov	0.7 hectare

The other three sites (two in Intensive orchards and one in nursery design) have been identified and the initial preparation works such as soil plowing, leveling, and disk-harrowing are currently underway. The stakes have been purchased. In the following months the area will be divided into sections and rows. The sites will be prepared for planting the saplings. The saplings will be purchased, planted, irrigated and fertilizer applied in December.

Dairy

Additionally, the budget for five pilot projects (four calf hutch pilot projects each designed to provide four calf hutches for demonstration purposes (totally 16 calf hutches) in different regions (three pilot projects in the central region and one in the southern region) and another pilot project on “Proper and Efficient Pasture Management” aimed at demonstrating the Rotational Grazing (portable corral system) as well as the application of fertilizers and medication) has been developed, the demo plots have been identified and designed. Memorandums of Understanding have been signed with the farmers.

Rotational Grazing Project -The Rotational Grazing Project is planned for a farm in Lankaran. This project is based on an already successful rotational grazing project underway in Barda and Agjabedi. Basically it involves using a portable electric fence system to limit the grazing area of the cows on a pasture to about a seventh of the pasture at any one time. When the cows have eaten on that area for about four days they are moved to a new seventh of the pasture for four days and so on until the entire pasture has been grazed, and the cycle begins back at the beginning grazing area. This system allows the grass to recover and grow taller. In this manner the roots develop better and more forage is available for the cattle than in a standard grazing system. The pasture will also be fertilized and herbicides will be used to kill the weeds in the pasture. All three of these measures combined are expected to double or triple grass production of the pasture demo plot.

Calf Hutch Project - Calf hutches are simple, effective housing structures for young calves. The calf hutch is an economical alternative to building a specialized calf nursery, and it is much healthier for the calves than exposing young calves to the humidity and infections in the main dairy barn. In milder climates like Azerbaijan, hutches are the only calf facility needed by the small farmer.

For this reason the use of calf hutches is planned on several farms in the central and southern regions of Azerbaijan where ACT is working with cattle farmers. Traditionally the Azeri farmer leaves the calves inside closed barns in the winter time. These barns are usually dirty, damp, and have little ventilation. This environment is dangerous to calves because of the threat of calf scours and respiratory diseases. The use of calf hutches by local farmers will decrease the calf mortality rate, save the farmer money in medicine, and result in calves that grow faster and healthier than calves in traditional housing.

Building the hutches on the four chosen sites will take about four days. The project plans to accomplish this in the first quarter of Year 3, since calving occurs in December. The calf hutches will be used for demonstrations on how to better raise calves. In other countries this system

has been easily adopted by neighboring farmers. Again this is a very simple project and any farmer can copy the technology with cheap local materials.

Aquaculture

Carp farms in Azerbaijan typically yield 0.5 MT per ha of 1+ kg carp. The current practice is to stock approximately 25,000 to 50,000 3 day-old carp per ha and hope for the best. Despite reported survival rates of 20 to 30% by some farmers, their harvest tells a different story (2-2.5%). This technique is highly variable, inefficient, and contrasts to best practices of carp culture used elsewhere, for the past 50 to 100 years. A more customary practice is to stock 3 to 16 day old carp into smaller fingerling ponds where they can be intensely fed and managed. After 30 days the carp will be 40 to 60 mm, and can be stocked in production ponds with a predictable survival rate of over 90%. This will significantly transform the industry. Although farmers will pay more to purchase fingerlings, they will have early stage mortality rates reduced by more than 90%. Moreover, these practices will improve the ability to plan, manage and forecast their production and the product inventory. Knowing the expected outputs in terms of seasonal yields they will be able to do their marketing, sales and future contracting to supply larger buyers.

Gasim Badalov is one of the most experienced carp farmers in the region. He also has an old style hatchery on the farm premises, where he performs primitive hatching operations. (Please see the chart below.) The project has been supporting the introduction of improvements in the hatchery process. In addition, the project has selected his hatchery in Neftchala to serve as a demonstration site for technology transfer for other farmers. Gasim has agreed to host training and workshops at his farm to benefit the industry from the hands-on training held by ACT's local experts and BDS staff and to encourage the purchase of 15 day old carp versus the current 3 day old process.

Hatchery Schedule:

- May 1-15 – 1.8 million carp
- May 15-31 – 1.8 million common carp
- June 1-15 – 1.8 million Silver-Big Head-White Amur
- June 15-June 30 – 1.8 million Silver-Big Head-White Amur

This will make 7.2 million 15 day old carp. With an expected survival rate of >75% this will provide the same impact as 144 million 3 day old fry with a 5% survival rate.

Current Status of the Hatchery Demo Plot:

Description of the item	Quantity needed	Status
Plastic tubes for rearing fry	9	Purchased
Incubation jars IVL 200L	20	Purchased
Incubation jars VEYS 10L	30	Purchased
Excavation of the grow-out ponds	4	Completed
Brood-stock supply	50	Purchased
Fingerling feed supply	2,400 kg	Purchased
Pituitary gland	4 qr	Purchased

At the moment, improvement of the hatchery in Neftchala is fully in process. To date, the old building of the hatchery has been torn down according to the ACT expert's recommendations. The foundation has been fortified, since the new building will be larger than the old one. The walls will be longer by 12 meters in length and 1 meter in width. The construction of the physical building is expected to be finished by the end of December 2012.

Activity 3.D: Improve Access to Finance for SME's and Farms, particularly in Rural Areas

This activity seeks to increase the amount of lending and leasing in the agricultural sector by developing the capacity of selected commercial banks and a financial sector association in order to encourage them to provide more services and loan products to the agriculture sector.

Sub-Activity 3.D.1: Agricultural/Rural Lending and Leasing

During Year 2, the ACT project continued to work with three commercial banks (Demir Bank, Turan Bank and AG Bank) and a non-banking financial institution (AzerCredit) (FIs) in the implementation of ag-lending technologies. In coordination with the credit departments of participating institutions, the consultants streamlined loan procedures, simplified formats, minimized documentation requirements and developed manuals and guidelines with the goal of improving access to credit for small farmers and rural entrepreneurs in the agriculture value chain.

All partner banks approved the proposed credit policies and procedures including the standardized formats and templates. The next phase was to test them in selected pilot branches, before applying them throughout the bank. Prior to the selection, the consultants conducted site visits to regional branches to assess market potential as well as the staff's interest in and willingness to participate in the project. After some initial training, pilot branches promptly started using the proposed approach and templates. The pilot test lasted a

period of three months during which all policies, procedures and formats, from loan promotion to approval, were tested and adjusted accordingly. As policies and procedures proved adequate, the partner FIs will focus on rolling out the approach to the remaining branches. In addition, at the end of the year it was agreed with USAID to work with Bank Respublika over the next year. The bank will receive assistance beginning in Q1 of Year 3.

SUMMARY OF ACCOMPLISHMENTS IN POLICIES AND PROCEDURES

LOAN PROCESS	BEFORE	AFTER
Loan Promotion	Loan Officers waited in their desks for clients to walk in	Loan officers reach out to clients and have monthly targets of new clients
Loan Application	1 page expression of interest 8 page loan application 8 page loan memorandum 2 page credit committee resolution	2 page loan application/evaluation that replaces all formats including credit evaluation Risk based loan analysis
Loan Analysis	4 page credit evaluation Cash flow based loan analysis	
Loan Approval	Credit Department/branch level	At branch level
Loan closing/contracts	79 pages to sign in average	Five pages max to sign for loans below AZN5,000 (targeted)
Loan Disbursement	At branch level	At branch level
Disbursement period	21 days to 60 days	Five days
LOAN POLICIES		
Loan Destination	Limited or none agriculture activities were financed	Any legal agriculture activity is financed
Loan Collateral	--% gold; 1-2 salaried guarantors; marketable household and business assets; property	--% gold; 1-2 salaried or business owner guarantors; any household and business assets; for loans below AZN 5,000
Loan documentation		ID only

Building up capacity among credit managers and loan officers with respect to SME ag-lending has been at the center of all activities. In this regard, the team carried out 18 training sessions with a total of 236 attendees, among which were branch managers, credit managers, trainers of trainers and loan officers. The team also provided intensive field training to loan officers throughout the year.

In order to ensure sustainability of the capacity building efforts beyond project's end, the team identified the Azerbaijan Risk Professionals Association (ARPA), a reputable bank training service provider in the country. The ACT project will assist ARPA in increasing its technical capacity to conduct training for bank employees on a full range of topics. An MOU was signed

at the beginning of Q4. As the first joint collaboration, the finance team conducted two training courses with the participation of 20 commercial bank representatives.

The Project performance statistics during Year 2 show that the participating banks reached 12,235 new agricultural clients with an outstanding portfolio of AZN 94.2 million. These figures represent 112% of a target of 10,073 new clients and 91% of a target portfolio of AZN 103.0 million by Year 2 end. The annual growth rate in the agricultural loan portfolio was 37%.

Table 2 below summarizes client outreach and progress towards targets for the participating institutions.

Partner FIs Outreach Progress in Year 2

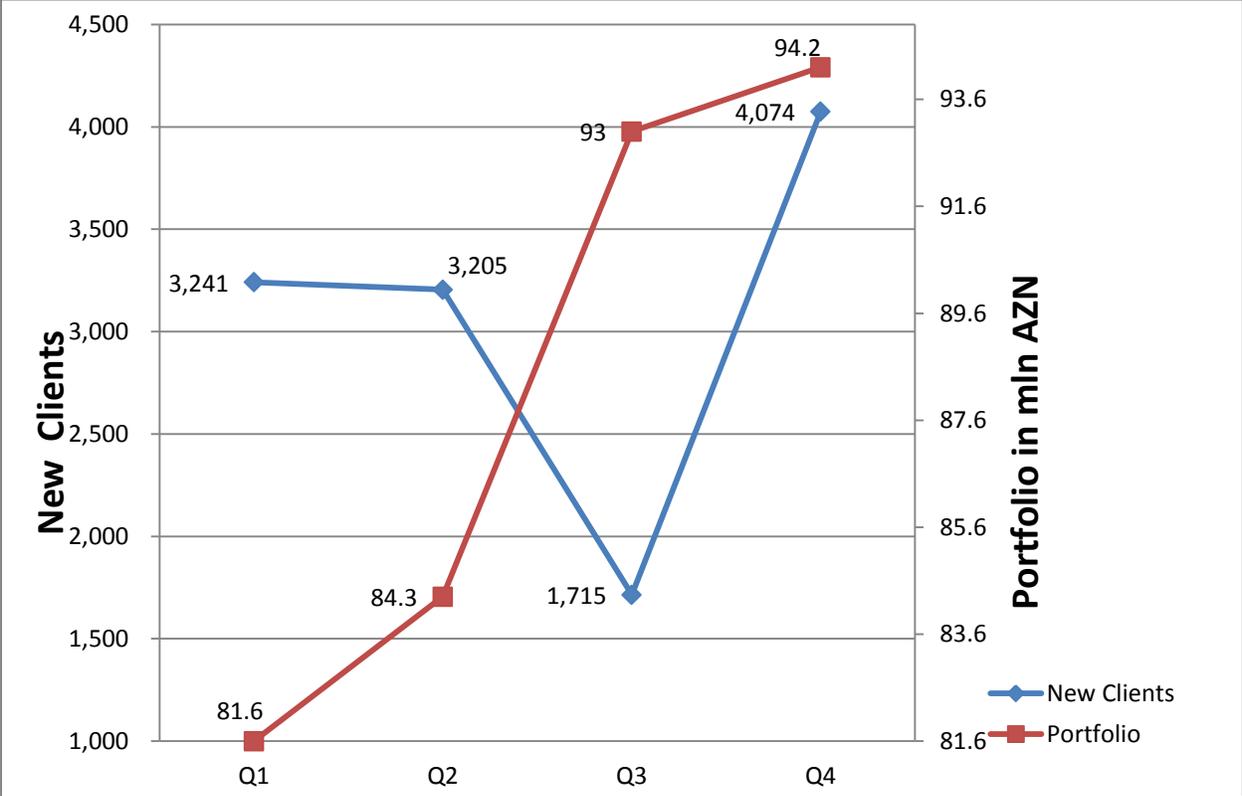


Diagram 4: Progress in overall portfolio and number of new clients in partner FIs

This year, the project also became involved in the provision of “Access to Finance” training for farmers with the participation of 44 farmers from the Zagatala and Guba regions. The training was delivered in two sessions. During the first session the Finance Advisor gave a comprehensive explanation on prevalent lending practices, bank’s expectations from customers, and differences between loans from banks and those from the National Fund for Entrepreneurship, among other topics. During the second session commercial banks invited by

the Project made detailed presentations about their lending products. In attendance were Access Bank, Demir Bank, Bank Respublika, Turan Bank and Finca (a non-banking financial institution). A major goal of the exercise was to create an opportunity for questions and answers from both sides.

Work with pilot branches of the partner banks continued in the final quarter of Year 2. Below is the summary of the collaboration with these partners:

Demir Bank

Pilot Project: Application of the methodology in both branches is going on intensively. Branch managers, credit managers and loan officers are happy with the proposed techniques and templates. The main advantages they find are simplicity, quick filling in and easy reviewing. Lending staff are looking forward to further loan stage reengineering.

Training: Twelve training sessions were conducted on different subjects for branch and credit managers, trainers and loan officers. The total number of attendees was 147. Intensive on the job training was provided to staff in the pilot branches during the year.

AG Bank

Pilot Project: Implementing the techniques in both branch and sub-branch is progressing slowly due mainly to high staff rotation. Yevlakh and Barda have lost several loan officers. Their outstanding portfolio, consisting mainly of SME clients, was distributed among the remaining officers to manage, and renew. As this transfer process is time and resource consuming, the number of new clients processed using our methodology during this period was very limited. Notwithstanding, the Head Office started recruiting and a new group of loan officers is now being trained in Baku. The Local Finance Advisor was engaged in interviewing some of the applicants. The new loan officers are going to work exclusively under the Project methodology and supervision.

Training: One training session was conducted on different subjects for regional and branch managers, trainers and loan officers. Attendees numbered 24.

Turan Bank

Pilot Project: The pilot branch has used the methodology for all MSE-agri loans disbursed during the period. But as the bank has stricter collateral requirements and due to seasonal factors the number of loans is not substantial. The branch has requested to Head Office to soften the terms and conditions to increase outreach.

Training: Two trainings were conducted on different subjects for regional and branch managers, trainers and loan officers. Attendees numbered 26.

Azercredit VF

Unlike the other partner banks, Azercredit is much more advanced in MSME ag-lending and had the largest outreach (more than 50,000 clients out of which 21,400 are in agriculture). Therefore, the project focused on the specific assistance needs of the partner. The work included structural changes in the lending hierarchy with segregation of duties; portfolio social indicators; customer satisfaction surveys; and various check-list templates. The management stated that they were also interested in testing the methodology in pilot branches that will be utilized in the next quarter.

Training: Three trainings were conducted on different subjects for regional and branch managers, trainers and loan officers. Attendees numbered 37.

Issues/Constraints

During the year there were a couple constraints that affected the results in component 3. The first was market interference in the apple sector that prevented apple producers and cold storage operators from exporting their products. This led in some cases to losses by producers and facilities. In addition, several of the cold storage operations failed to follow through completely with recommendations resulting in losses of product. Other facilities did follow through providing an excellent example of the potential for success for others. Lastly, in terms of the demonstration plot for hazelnuts, the partner did not initially follow through with commitments to manage the farm properly resulting in a higher than expected loss of some of the saplings. The project stepped in to get the plot back on track and properly managed. The partner is now fully engaged to take the site forward.

Project Activities Planned for Q1 FY2013

Direct Value Chain Assistance

- Provide technical assistance to at least 20 companies.
- Hold three workshops on Cold Storage Management in Guba, Central and South regions.
- In partnership with GIZ, hold two four-day courses on Cold Storage in Guba.
- Identify new companies for HACCP activities for the third year.
- Hold the final (3rd) training for Consumer Union Association on Food Safety Seal Program with participation of government agencies.
- Finalize HACCP implementation related work at current six companies.
- Begin support for association development in hazelnut, pomegranate, cold storage and aquaculture sectors, as applicable.

Agricultural Practices at the Farmer Level

- Continue providing farmer training to beneficiary farmers in target value chains.
- Provide TA in finishing establishment of new trout farm in Khachmaz region.
- Provide TA in finishing the establishment of the carp pond in Hajigabul region.
- Provide TA in finishing the hatchery demo site in Neftchala and hold the official opening ceremony.
- Finalize and establish four calf hutches demo plots in Barda, Agjabadi, Beylaga, and Lankaran. Each site will have for hutches for a total of 16 calf hutches.
- Finalize and establish rotational grazing demo plot in Lankaran.
- Establish up to three new pomegranate demo plots in Gochay region to serve as GAP Demo Plots.
- Establish and finalize additional apple demo plots.
- Participate in Pomegranate Festival, including the establishment of a booth to demonstrate USAID activities and products.
- Produce second pomegranate TV program to be aired on local TV station.

Agricultural Lending

- Agree with Bank Respublika on the work plan and sign MOU. Start working on new product development.
- Package new product as agri-loan with new brand and marketing for Demir Bank. Apply new forms and templates for additional branches of Demir Bank.
- Start working with IT department of partner banks to incorporate new forms into their internal systems.
- Hold two regional trainings with ARPA.
- Publish one technical note on access to finance in ARPA's RISK MAGAZINE.

Coordination with other Donor Projects

Over the last year, the project has coordinated on various activities with many of the donors working in similar areas of assistance. These include SECO, IFC, GIZ, EU, FAO, World Bank, EBRD and others. Specific cooperation has been identified directly in each of the component sections. In addition, the project has been providing support to coordinate joint donor topic meetings on trade and investment and agriculture. The project will continue these activities throughout the next year.

Cross Cutting Activities

Monitoring and Evaluation (M&E)

The following table provides the status of indicators for the quarter in comparison with the agreed upon targets.

Monitoring Reporting for FY2 Q4

Indicator ¹⁶	Cumulative Actuals FY1 ¹⁷		Targets FY1	Data for FY2, QTR 1		Data for FY2, QTR 2		Data for FY2, QTR 3		Data for FY2, QTR 4		Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments on Q4 data
	M	F		M	F	M	F	M	F	M	F				
1-2.1 Number of direct exposures of public education/advocacy	520	150	670	138	33	63	44	250	55	4	1	588	600	700	
1-2.2 Number of indirect exposures of public education/advocacy	7		7	4		4		6		2		16	14	21	Component 1: Article on secured transactions was published a second time in the Economist Component 2: TV Show
1-2.3 Number of institutions/organizations undertaking capacity/competency strengthening as a result of USG assistance ¹⁸	12		12	1		0		0		0		1	3	4	
COMPONENT 1															
1.1 Implementation of modern risk assessment in line with international best practices by the Central Bank	No		No	No		No		No		No		No	Yes	Yes	
1.2. Number of people trained in using the outputs of the risk assessment system for banks at the Central Bank	0		0	0		0		0		0		0	40	40	
1.3. Number of people trained with the goal of improving or working more effectively with the business enabling	M	F	194	M	F	M	F	M	F	M	F	124	100	100	
	127	67		0	0	27	2	0	0	89	6				

¹⁶ As per revised PMP, submitted in October 2012.

¹⁷ FY1 targets for indicators 1-2.1, 1-2.2, and all Component 1 indicators are actuals.

Indicator ¹⁶	Cumulative Actuals FY1 ¹⁷				Targets FY1	Data for FY2, QTR 1				Data for FY2, QTR 2				Data for FY2, QTR 3				Data for FY2, QTR 4				Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments on Q4 data
environment																									
1.4. Number of agencies that introduce improvements into their food safety inspection regimes as the result of project assistance	0				0	0				0				0				0	2	2					
1.5 Number of business environment laws, regulations, or administrative procedures drafted, submitted for public/stakeholder consultation, submitted for legislative consideration, or passed/ approved	draft	stakeholder	sub. Legisi.	approved	5	draft	stakeholder	sub. Legisi.	approved	draft	stakeholder	sub. Legisi.	approved	draft	stakeholder	sub. Legisi.	approved	6	10	10	The Ministry of Justice approved the Ministry of Finance's Methodology of Modeling and Forecasting of Public Revenues				
	3	1	1	0		0	1	0	0	0	2	1	0	0	0	0	0					1			
1.6. Number of people completing a project-supported E- learning program on AFL/CFT	0				0	0				0				0				0	0	1200					
1.7. Number of currency transaction reports sent from reporting entities to the Financial Monitoring Service	188,030				188,030	59,113				51,708				62,000				53,000	172,821	180,000	200,000				
1.8. Number of suspicious transaction reports sent from reporting entities to the Financial Monitoring Service ¹⁹	18,623				18,623	3,963				3,900				3,624				3,583	15,070	25,000	20,000				
1.9. Number of cases referred from the Financial Monitoring Service to the appropriate prosecuting authority	10				10	1				4				4				0	9	20	30				
COMPONENT 2																									
2.1. Number of USG supported training events that relate to improving the trade and investment environment	8				8	0				0				2				5				7	8	8	
2.2. Number of participants in trade and investment environmental trainings	M	F			120	M	F			M	F			M	F			46	80	100					
	52	16	0	0		0	0	8	6	24	8														

¹⁹The narrow definition of suspicious transactions includes transactions where the circumstances surrounding them raised several pre-defined "red flags". The data corresponding to this more narrowly defined definition of "suspicious transaction" is presented below:

FY1 Q1	FY1 Q2	FY1Q3	FY1Q4	FY2 Q1	FY2 Q2	FY2 Q3	FY2 Q4
NA	70	46	72	91	92	124	97

Indicator ¹⁶	Cumulative Actuals FY1 ¹⁷			Targets FY1	Data for FY2, QTR 1			Data for FY2, QTR 2			Data for FY2, QTR 3			Data for FY2, QTR 4			Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments on Q4 data
	bilateral	plurilateral	multilateral		bilateral	plurilateral	multilateral													
2.3. The number of new requests, offers, revised offers, or other formal text that are submitted by a host country as part of international trade talks attributable to USG assistance	9			5	2			2			2			4			10	5	5	Revised offers in goods: US, EU, Canada; Revised offers in goods: Brazil
2.4. Number of bilateral, plurilateral, and multilateral meetings toward negotiating accession to agreements, conventions, and international organizations	0	0	1	5	0			6	1	1	2	0	0	4	0	0	14	6	5	Bilateral meetings with US, Canada, Brazil, China
					bilateral	plurilateral	multilateral													
2.5. Number of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from USG-assisted	1	2	7	6	0	1	0	5	0	0	0	1	1	2	0	0	10	6	6	Draft Guidelines for Conducting Commodity Pest Risk Assessment, Draft Model Legislation for Implementing TBT Code of Good Practices
					draft	submitted	approved													
COMPONENT 3																				
3.1. Number of individuals who have received USG supported short-term agricultural sector productivity training ²⁰	M	F	1,000	M	F	M	F	M	F	M	F	9,824	9,000	12,000						
	939	118		25	0	1,345	61	3,397	561	3,855	580									
3.2. Number of firms receiving USG supported assistance to improve their management practices	70			40	0			0			13			12			25	40	140	
3.3. Number of firms receiving USG assistance compliant with international quality control, environmental and other process voluntary standards or regulations	0			0										0			5	5		
3.4. Percent of farmers, processors, and others who have adopted new technologies or management practices as a result of USG assistance <i>(1) dairy and aquaculture farmers, (2) processors</i>														(1) 62% (2) 23%			25%	15%		
3.5. Percent change in the yield of targeted														(1) 33.6%			(1) 5%	(1) 7%		

²⁰ The numbers reported for Fiscal Year 2 have been revised based on an internal Data Quality Assessment.

Indicator ¹⁶	Cumulative Actuals FY1 ¹⁷	Targets FY1	Data for FY2, QTR 1	Data for FY2, QTR 2	Data for FY2, QTR 3	Data for FY2, QTR 4	Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments on Q4 data
commodities as a result of USG assistance <i>(1) pomegranate, (2) dairy, (3) aquaculture.</i>							(2) 8.7% (3) 21.8%	(2) 7% (3) 18%	(2) 18% (3) 15%	
3.6. Percent change in value of purchases from smallholders of targeted commodities as a result of USG assistance (farmer sales) <i>(1) pomegranate, (2) dairy, (3) aquaculture</i>							(1) 9.2% (2) 44.6% (3) 25.8%	10%	15%	
3.7. Percent change in sales in the following targeted commodities by processors as a result of USG assistance <i>(1) dairy, (2) hazelnut, (3) pomegranate, and (4) cold storage.</i>							(1) 5% (2) 6% (3) 17% (4) 0%	(1) 8% (2) 5% (3) 5% (4) 5%	(1) 10% (3) 8% (3) 8% (4) 8%	
3.8. Percent change in the value of international exports of the following targeted agricultural commodities as a result of USG assistance <i>(1) hazelnut, (2) pomegranate</i>							5% 16%	(1) 7% (2) 4%	(1) 5% (2) 3%	
3.9. Number of jobs created as a result of USG assistance							1605 ²¹	700	600	
3.10. Number of new agricultural loans or leasing agreements made by financial institutions receiving project assistance ²²	5,417	5,417	3,241	3,205	1,715	4,074	12,235	10,973	8,431	
3.11. Percentage change in the value of overall portfolios of agricultural loans or leasing agreements made by financial institutions receiving project assistance	26%	26%	18.26%	3.31%	10.32%	1.29%	37%	55%	30%	

²¹ The reported data includes jobs created among dairy, pomegranate, apple and aquaculture farmers and cold storage, pomegranate, dairy and hazelnut processors.

²² This indicator was represented differently in previous quarterly reports to include data just on outstanding clients. However, the project has gone back to the original indicator and estimated the number of closed loans in order to provide an estimate of new clients each quarter. The date for each quarter therefore has been corrected in this report. The indicator name and definition have not changed.

Financial Reporting

The table below provides a breakdown of costs by category for Q4 FY 2012 (July 1-September 30, 2012) and FY2012 (October 1, 2011 – September 30, 2012)

Categories	Vouchered Q4 – FY12 July 1 – Sept 30, 2012 (US\$)	Vouchered Annual - FY12 Oct 1, 2011 – Sept 30, 2012 (US\$)	Vouchered To Date Oct 1, 2010 – Sept 30, 2012 (US\$)
Technical assistance			
<i>Expatriates (US and TCN):</i> Long-term Technical Assistance	282,877	1,141,593	2,085,916
<i>Expatriates (US and TCN):</i> Short-term Technical Assistance	360,011	1,620,879	4,102,666
<i>Local Staff</i>	457,099	1,678,893	2,898,794
LTTA Allowances	60,860	261,367	487,625
Training Expenses	50,982	299,551	341,278
Administrative Expenses Travel/Transportation/Housing/Office Rent	258,038	924,446	2,030,603
Equipment & Vehicles	1,101	13,750	168,196
Other (Communications and Delivery, Bank Charges, Translation/Editing Services, Occasional Labor, Passports and Visas, Local CCN Social Costs, Legal Costs, etc.)	158,446	617,582	1,241,489
G&A	63,531	253,401	512,303
Grants	0	0	0
TOTAL	1,692,945	6,811,462	13,868,870

Communications and Outreach

During Year 2 the Project implemented following outreach activities:

Name	Description\Topic	Attended	Date
“Economic Forum” program on ANS TV Topic: <i>Import Costs and Barriers</i>	Local experts discussed export costs and barriers, WTO requirements in this relation, possible implications and proposed recommendations.	Elkhan Mikayilov - Component 2 Team Leader , ACT Nazim Mammadov - economist, former MP Galib Togrul – Economic Research Center	08.10.2011
“Economic Forum” program on ANS TV Topic: <i>Export Costs and Barriers</i>	Local experts discussed export costs and barriers, WTO requirements in this relation, possible implications and proposed recommendations.	Elkhan Mikayilov - Component 2 Team Leader , ACT Gubad Ibadoglu – Director of Economic Research Center	15.10.2011
“Economic Forum” program on ANS TV Topic: <i>Real Estate Rights and Their Registration</i>	International and local experts discussed current situation related real estate rights, existing procedures for registration of real estate rights and recommendations for their improvement.	Leyla Taghiyeva – Business Legislation Expert, ACT Stevan Dobrilovic – International expert	22.10.2011
“Economic Forum” program on ANS TV Topic: <i>Azerbaijan’s Accession to WTO and reforms in the standardization system</i>	Elkhan Mikayilov from ACT and a representative of State Committee on Standardization Metrology and Patent discuss Azerbaijan’s accession to WTO and the standardization system.	Elkhan Mikayilov - Component 2 Team Leader , ACT	25.11.2011
“Bollug” TV program on RTV - Guba Topic: <i>Cold Storage Management</i>	ACT local expert and international consultant discussed the benefits of cold storage in the marketing of locally produced apples and best	Anar Azimzade – Value Chain Specialist, ACT Patrick Hughes – International expert	09.12.2011

Name	Description\Topic	Attended	Date
	practices in the field.		
News article on completion of the four-week Project Appraisal and Risk Analysis Training at Economic Research Center under the Ministry of Economic Development	<p>Economic Reforms Institute published an article on completion of a major training course on Project Appraisal and Risk Analysis (focusing on cost benefit analysis) with approximately 25 students making final presentations and taking written exams. The four-week training was arranged by the USAID ACT Project in cooperation with the Institute of Economic Reforms (IER) under the Ministry of Economic Development.</p> <p>http://www.ier.az/view.php?lang=en&menu=305&submenu=51&id=305</p>		17.12.2011
TV program on Kanal S (Sheki) Topic: Competition	Local experts discussed the competition code and its implications.	<p>Eldar Gojayev – Component 1 Deputy Team Leader, ACT</p> <p>Ali Masimli – Member of Parliament</p>	05.01.2012 (repeat on 06.01.2012)
“Economic Forum” program on ANS TV Topic: <i>Azerbaijan’s Accession to WTO and Agricultural Subsidies</i>	<p>Local and international experts discussed current subsidies and their role in the economy, green box subsidies and their advantages and necessary future actions.</p> <p>http://www.youtube.com/watch?v=ov1oJfFJOU</p>	<p>Elkhan Mikayilov - Component 2 Team Leader , ACT</p> <p>Harry DeGorter – International Expert</p> <p>Vahid Maharramov –Economic Research Center.</p>	21.01.2012
“Economic Forum” program on ANS TV Topic: <i>Aquaculture: Challenges and Perspectives</i>	<p>Participants discussed problems related to aquaculture in Azerbaijan and its perspectives.</p> <p>http://www.youtube.com/watch?v=2b7YRTIYpmQ</p>	<p>John O’Connel I– Component 3 Team Leader , ACT</p> <p>Tariel Mammadov – Deputy Director of Aquaculture Institute under Ministry of Environment and Natural Resources;</p> <p>Vahid Maharramov – Expert of Economic Research</p>	28.01.2012

Name	Description\Topic	Attended	Date
		Center; Galib Togrul – Expert of Economic Research Center	
“Social Life” program on Kanal S - Sheki Topic: <i>Aquaculture: Challenges and Perspectives</i>	Experts discussed perspectives for development of aquaculture in Azerbaijan.	Yashar Farajov – Component 2 Deputy Team Leader , ACT Tom Ort – International expert	09.02.2012 (repeated on 10.02.2012)
“Economic Forum” program on ANS TV Topic: <i>Secured Transactions</i>	Experts discussed secured transactions and their advantages, global practices.	Everett Whohlers - International Expert Daniel Fitzpatrick - Component 1 Team Leader , ACT Altay Mustafayev – lawyer	11.02.2012
Publication of article on Secured Transactions on “APA” webpage Author: <i>Leyla Mammadova, ACT Project</i>	http://az.apa.az/news.php?id=262572	Leyla Mammadova, legal expert of USAID Azerbaijan Competitiveness and Trade (ACT) Project was interviewed by Azerbaijan Press Agency (APA) and her interview with photos is published in 3 languages (Azeri, English, Russian) on www.apa.az webpage	05.06.2012
“Current time (Indiki Zaman)” program on EL TV (Yevlakh) Topic <i>Competition environment and improving legislation</i>	Discussions evolved around current competition environment and possible improvements to competition legislation . http://elvtv.az/videolar/399-ndiki-zaman-rqabt-mhiti-v-qanunvericiliyin-inkiaf.html	Eldar Gojayev – Component 1 Deputy Team Leader, ACT Irada JAvadova - Co-chair of Human Rights Education Public Union; Gubad Ibadoglu - Head of Economic Research Center	21.06.2012 (repeat June 25)
“Social Life” program on Kanal S - Sheki Topic: <i>WTO</i>	Experts discussed various aspects of Azerbaijan’s accession to WTO.	Elkhan Mikayilov – Component 2 Team Leader	05.07.2012
“Center of Attention” program on Public TV (Ictimai TV)	Local and international experts discussed the importance of food safety, HACCP system,	Anna Vasylenko – International Expert	16.08.2012

Name	Description\Topic	Attended	Date
Topic <i>Food Safety</i>	ensuring quality of production in food industry.		
“Center of Attention” program on Public TV (Ictimai TV) Topic <i>WTO</i>	Local and international experts discussed status of Azerbaijan’s accession to WTO, its implications, requirements to standardization system etc.	Elkhan Mikayilov – Component 1 Team Leader, ACT Rahat Tokhtanaliyev – International Expert	27.09.2012
“Current time (Indiki Zaman)” program on EL TV (Yevlakh) Topic <i>Pomegranate industry: challenges and perspectives</i>	Local experts discussed agriculture sector, in particular current condition of pomegranate industry, progresses and challenges. http://eltv.az/verlisler/873-nkiyf-yolunda-narlg.html	Zaur Hajiyev – ACT Project Loca Expert	27.09.2012
“Center of Attention” program on Public TV (Ictimai TV) Topic <i>Cold Storage Management</i>	Local and international experts discussed cold storage systems, their management, advantages of proper cold storage systems, global practices.	Patrick Hughes – International Expert	18.10.2012

Fixed Price Contracts

The following fixed price contracts were signed in in FY 2 (October 1, 2011 – September 30, 2012):

AR Number	Contract #	Contracted Amount (AZN)	Organization	Value Chain/Subject Area	Region	Period of Performance
136	16	70,000.00	Azsertifika Consulting firm (phase 2)	HACCP implementation - 2 Phase	Goychay, Lenkaran, Agdash	3 October 11 - 30 April 113
137	17	30,000.00	Quality Association Public Union (phase 2)	HACCP implementation - 2 Phase	Baku	3 October 11 - 30 Sept 12
153	18	16,455.70	Isgandarov&Partners	Mapping the Process for Starting and Operating Two Illustrative Businesses	Baku, Mingechavir, Neftichala	5 Dec 11 - until completion of work or end of project
199	19	25,200	Janub Agribusiness Center	Dairy	South	April 19, 2012-June 11, 2013
198	20	46,300	"Araz" Business Center LLC	Horticulture - pomegranate	Central	April 16, 2012 – June 11, 2013
197	21	32,400	Parviz LLC	Horticulture - hazelnuts	Northwest	April 19, 2012 - June 11, 2013
200	22	15,722	Azerbaijan Lawyers Confederation	Competition Legislation	Baku	April 9, 2012 – July 31, 2012
206	23	52,200	Agrotech LLC	Dairy	Central	April 19, 2012-June 11, 2013

AR Number	Contract #	Contracted Amount (AZN)	Organization	Value Chain/Subject Area	Region	Period of Performance
226	25	2,800	EL TV (Yevlakh)	TV	Based in Yevlakh, North Central	June 8, 2012 – June 11, 2013
226	26	3,200	Kanal S	TV	Based in Sheki, North	June 19, 2012 – June 11, 2013
226	27	1,800	Kanal 13	TV	South	June 13, 2012 – June 11, 2013
230	24	30,000	Public Television and Radio Broadcasting Company	TV	National	July 4, 2012 – July 3, 2013

Annex 1A – Legislative Tracking: Domestic Business Enabling Environment as of October, 2012

At Parliament:

Draft Legislation	Comments
1. Draft Competition Code	On the Parliament’s agenda for the fall session (2012). Parliamentarians appear to be turning their attention to this law and to the possibility of adjusting it to account for changes recommended by the project and interested parties.

At President Office:

Draft Legislation	Comments
2. None currently	

At Cabinet of Ministers:

Draft Legislation	Comments
3. Draft Law “Establishment of a Unified Cadastre of Real Estate”	It was submitted by the State Committee on Property Issues (SCPI) with many of the proposed revisions of the project adopted. However, another version of the law, prepared by the State Land and Cartography Committee, is circulating as well.
4. Draft Law on “Licensing and Permits”	It was submitted by the Ministry of Economic Development with many of the proposed revisions of the project adopted. The draft is pending however, due to a failure to clarify the actual licenses and permits that should be listed in a presidential decree that would accompany the draft.
5. Package of legislative amendments concerning e-commerce.	This was submitted to the Cabinet of Ministers and is now in circulation among the affected ministries and agencies. The legislative package has been generally well received.

At Ministerial Level:

Draft Legislation	Comments
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Draft Legislation	Comments
6. Draft Amendments to the Tax Code	The government on several occasions has stated that the amendments will be submitted to the Parliament in the fall. As of September 30, however, this had not happened.
7. Draft Law on “Secured Transactions”	The Central Bank and the International Finance Corporation have been discussing how the law should be structured (as either one expressed primarily through changes to the Civil Code or one expressed through a stand-alone law). It appears that the latter is the now the favored position.

Annex 1B – Legislative Tracking: Trade Environment as of October, 2012

*WTO related but was not listed on the Presidential Action Plan

**Laws for which ACT is providing assistance related to implementation

At Parliament:

At President Office:

Draft Legislation	Comments
8. Draft Law "On Technical Regulations" **	President office sent the Law to Cabinet of Ministries for final comments and comments were received. ACT is working with the President's office to finalize the draft to send to Parliament.

At Cabinet of Ministers:

Draft Legislation	Comments
9. Draft Law "On Protection of Rights of Broadcasting Organizations in Digital Network"	In Cabinet of Ministers. No outstanding issues.
10. Draft Amendments to the Law "On Food Products" No.759-IQ dated November 18, 1999**	Draft has been agreed with all agencies except State Committee on Standardization, Metrology and Patents. ACT is working with the Committee to finalize the draft changes.
11. Draft Amendments to the Law of the Republic of Azerbaijan "On Sanitary and Epidemiologic Welfare" No.371 dated November 10, 1992	At Cabinet of Ministers. Ready for submission to the President's Office.
12. Draft Cabinet of Ministers Resolution "On Declaration of Works to be Fallen Into Public Domain"	At Cabinet ready for approval.
13. Draft Cabinet of Ministers Resolution "On	At Cabinet ready for approval.

Draft Legislation	Comments
Minimum Tariffs for Use of Subject Matters of Related Rights”	
14. Draft amendments to Law on Procurement No. 245-IIQ dated 27 December 2001	Draft at Cabinet. Comments received from ministries and replies are being compiled by SPA.
15. Draft Law on Accreditation of Conformity Assessment Bodies*	ACT has finalized the draft with State Committee on Standardization and draft Law has been sent to the Cabinet of Ministries.

At Ministerial Level:

Draft Legislation	Comments
16. Draft Amendments to the Rules “On Rules of Issuance of Special Permission (Licenses) for Some Types of Activities” approved by Decree of the President No.782 dated September 2, 2002	A legal working group was established to revise this Draft to ensure greater conformity with the WTO Agreement on Import Licensing Procedures. ACT project is participating in this effort.
17. Draft Law amending Law on Standardization*	ACT Project and State Committee on Standardization, Metrology and Patent will work jointly to revise the draft.

“Second Legislative Action Plan”

At Cabinet of Ministries

Draft Legislation	Comments
18. Amendments to the Law of Azerbaijan Republic on Commercial Secrets, No. 224-IIQ dated 4 December 2001	ACT Project has reviewed submitted draft and provided comments to Copyright Agency.
19. Amendments to the Law of Azerbaijan Republic on Legal Protection of Topologies of Integral Schemes”, No. 337-IIQ dated 31 May 2002	ACT Project has reviewed submitted draft and provided comments to Copyright Agency.
20. Amendments to the Civil Procedural Code of	ACT Project has reviewed submitted draft and provided comments to Copyright

Draft Legislation	Comments
Azerbaijan Republic No. 780-IQ dated 28 December 1999	Agency.
21. Amendments to the Criminal Code of Azerbaijan Republic, No. 787-IQ dated 30 December 1999	ACT Project has reviewed submitted draft and provided comments to Copyright Agency.
22. Amendments to the Code of Administrative Offences of Azerbaijan Republic, No 906-IQ dated 11 July 2000	ACT Project has reviewed submitted draft and provided comments to Copyright Agency.
23. Draft Resolution of Cabinet of Ministers on “some issues related to the granting international standard numbers to books, periodic publications, audiovisual works and audio records	Draft being reviewed at the Cabinet of Ministers level
24. Amendments to the Law on Phytosanitary Control, No. 102-IIQ dated 12 May 2006	Draft is at the Cabinet of Ministries
25. Amendments to the Law on Veterinary - No. 922-IIQ dated 31 May 2005	Draft is at the Cabinet of Ministries

At Ministry of Economic Development:

Draft Legislation	Comments
26. Draft Law on Anti-Dumping, Safeguards and Countervailing Measures	Draft Law is completed at Ministry of Economic Development (MOED) level with the strong contributions and several reviews of ACT. It is ready to be sent to Cabinet of Ministries.
27. Draft Law on Foreign Trade Activity	Draft Law is ready at Ministry of Economic Development and can be submitted to the Cabinet of Ministries.

At Ministerial Level:

Draft Legislation	Comments
28. Amendments to the Criminal Procedural Code of Azerbaijan Republic No. 907-IQ dated 14 July 2000	Preliminary draft is being finalized in Patent Office and after finalization will be submitted to the Cabinet of Ministers.
29. Draft Resolution of Cabinet of Ministers on Approval of “Rules for determination of the amount of claim related to the violation of the copyright and related rights”	ACT Project is working with the state copyright agency on preparation of updated revised draft.
30. Amendments to the Law on Selection Achievements	The Law is at the Ministry of Agriculture, ready for submission to Cabinet of Ministries
31. Draft Resolution on Implementation of Interpretative Notes for Customs Valuation	ACT prepared a model for consideration by the State Customs Committee. Customs indicated that work on this will start after adoption of Draft Customs Code.

Adopted Legislation

Laws

1. New Law "On Securing Intellectual Property Rights and Combating Piracy" adopted on 22 May, 2012
2. New Customs Code of Azerbaijan Republic, adopted by Parliament on June 24, 2011
3. Amendments to the Law of the Republic of Azerbaijan "On Normative Legal Acts" No. 761-IQ, dated November 26, 1999
4. Amendments to the Law "On Currency Control" No. 910, dated October 21, 1999 (A)
5. Amendments to the Law "On State Duty" No. 223-IIQ, dated December 4, 2001
6. Amendments to the Tax Code of the Republic of Azerbaijan, approved by the Law of the Republic of Azerbaijan No.905-IQ, dated July 11, 2000
7. Amendments to the Law of the Republic of Azerbaijan "On Copyright and Related Rights" No. 115-IQ, dated July 5, 1996
8. Amendments to the Law of the Republic of Azerbaijan "On Viticulture and Wine-Making" No. 208-IIQ dated October 19, 2001
9. Draft Amendments Law of the Republic of Azerbaijan "On Customs Tariff" No.1064, dated June 20, 1995
10. Draft Amendments to the Law of the Republic of Azerbaijan "On Trademarks and Geographical Indications" No. 504-IQ, dated June 12, 1998
11. Draft Amendments to the Law of the Republic of Azerbaijan "On Tobacco and Tobacco Products" No. 138-IIQ dated June 8, 2001
12. Draft Amendments to the Law of the Republic of Azerbaijan "On Patents" No.312-IQ dated July 25, 1997

President Decrees

13. Draft Amendments to President Decree 619 of December 26, 2001
14. Draft Amendments to Decree of the President "On Further Liberalization of Foreign Trade in the Republic of Azerbaijan" No.609 dated June 24, 1997

Sublegal Acts

15. Amendments to the Resolution of the Cabinet of Ministers "On Rates of Customs Duties for Import and Export Transactions and Amount of Fees Charged on Customs Clearance in the Republic of Azerbaijan" No.80 dated April 12, 2001
16. Amendments to the Resolution of the Cabinet of Ministers "On the Rates of State Fees on Issuance of Special Permissions (Licenses) for Activities Requiring Special Permissions (Licenses)" No.180 dated 18 November 2002
17. Amendments to the Resolution of the Cabinet of Ministers "On the Rules for Customs Valuation Methods for Goods Imported into and Exported out of the Republic of Azerbaijan" No.7 dated January 12, 1998
18. Amendments to the Resolution of the Cabinet of Ministers "On Approval of the Rules of Determination of Origin of Goods" No.202 dated November 2, 2000

19. New Resolution of the Cabinet of Ministers “On Rules on Determination of the Minimum Amount, Distribution and Payment of the Author’s Royalty for Reproduction of Works and Audiovisual Works from Phonograms for Exclusively Personal Purposes”
20. Draft Amendments to Cabinet of Ministers “On Rates of Fees Paid for Currencies Taken of the Republic by Resident Physical Persons” No. 79 dated 17 May 2002
21. Draft Amendments to Resolution No. 140 “On Approval of Additional Rules and Regulations for the Purpose of Protection of the State Border of the Republic of Azerbaijan” dated March 9, 1993
22. Cabinet of Ministers Order establishing National Codex Point was adopted
23. Decision of State Committee for Standardization, Metrology, and Patents on Establishing TBT Enquiry Point was adopted

Other Related Laws (not on agenda):

24. Law on Ecologically Clean Agriculture No. 650-IIIQ dated 13 June 2008
25. Law on Special Economic Zones No. 791-IIIQ dated 14 April 2009
26. Amendments to the Law on Public Procurements No. 245-IIQ dated 27 December 2001 (concerning establishing an official website on public procurement) – adopted as one of the seven laws considered as package for combating corruption

Annex 2 – Capacity Building

Component	Name of the Event	Type of the Training	Start Date	End Date	Training Provider	Training Provider's Address	# of Participants-Male	# of Participants-Female
2	TBT Code of Good Practice	Roundtable	7/12/2012	7/12/2012	ACT Project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	2
2	WTO SPS Notification and Inquiring Point Activity Coordination Mechanism	Roundtable	7/13/2012	7/13/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	2	1
1	Check List	Roundtable	7/18/2012	7/18/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	4	1
2	Ensuring effective Laboratory Control according to ISO 17025	Roundtable	7/24/2012	7/24/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	3
2	Implementation of the Requirements of ISO 17025	Seminar	7/31/2012	8/1/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	0
1	FMS-NGO Money Laundering	Roundtable	7/31/2012	7/31/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	2
3	Consumer Food Safety Seal Program	Workshop	8/7/2012	8/7/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	9	2
3	Cold Storage Management	Workshop	8/7/2012	8/7/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	22	0
3	Cold Storage Management	Workshop	8/9/2012	8/9/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	16	2
3	Access to finance	Training	9/7/2012	9/7/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	19	1
1,3	Business Startup by CSO	Briefing	9/11/2012	9/11/2012	ACT project	133 Bashir Safaroglu str.	0	0

Component	Name of the Event	Type of the Training	Start Date	End Date	Training Provider	Training Provider's Address	# of Participants-Male	# of Participants-Female
	Consortium					SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan		
3	Food Safety and International Standards Requirements	Seminar	9/14/2012	9/14/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	31	1
3	Food Safety and International Standards Requirements	Seminar	9/19/2012	9/19/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	0	0
2	Pest Risk Analysis	Seminar	9/25/2012	9/27/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	1	2
1	Problem Loan Management Workshop	Workshop	9/27/2012	9/27/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	65	4
1	Problem Loan Management Workshop	Workshop	9/28/2012	9/28/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	17	0