

USAID/Azerbaijan
ANNUAL REPORT FY 2003

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Please Note:

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Related document information can be obtained from:
USAID Development Experience Clearinghouse
1611 N. Kent Street, Suite 200
Arlington, VA 22209-2111
Telephone: 703-351-4006 Ext 106
Fax: 703-351-4039
Email: docorder@dec.cdie.org
Internet: <http://www.dec.org>

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A. Program Level Narrative

Program Performance Summary:

Background: In the ten years since regaining independence, Azerbaijan has made only an incomplete transition to a democratic polity and a market economy. The democratic process is nominally in place, but supporting traditions and institutions are still in a developmental phase. The governance process is still authoritarian, but not oppressive by regional standards. The country has been unable to take advantage of its substantial resource base, and some 60% of Azeris live below the poverty line. Moreover, the dispute with Armenia over the Nagorno-Karabakh enclave remains unresolved. As a result, some 16% of Azerbaijan is occupied by Armenians, and some 800,000 Azeris are refugees or internally displaced.

U.S. interests and Goals: Important U.S. interests are at stake. The Azeri citizenry is favorably disposed towards Americans, and the government has strongly supported U.S. anti-terrorism initiatives. Secular Islam prevails, roughly similar to that of the Turks to whom the Azeris are ethnically related. However, the country is in the path of anti-Western influences, lying near the center of the volatile Caucasus region. Serious humanitarian, development, and democracy considerations are present. Lastly, petroleum resources in Azerbaijan and the Caspian Sea Basin region are of geo-strategic significance.

Challenges: There is reason to be optimistic. Rich agricultural resources, petroleum reserves, a well-educated population, and relative political stability augur well. Short-term external assistance needs are considerable, particularly with respect to refugee and displaced populations. However, in the medium-term, if the country's economic potential can be activated, ample public sector resources and strong economic opportunities can facilitate solutions to social problems and provide an economic underpinning for a viable democracy. More negatively, poor political or economic systems can negate the country's potential oil wealth, fomenting internal unrest and inciting outside actors. Although progress has been slow, the government is increasingly receptive to policy initiatives and institutional development supportive of democracy and market economics.

The USAID humanitarian program provides assistance to refugees and internally displaced persons, primarily in the IDP belt, and to communities impacted by the massive dislocations. Eight major U.S. non-governmental organizations -- all but one operating under the umbrella grant to Mercy Corps -- have implemented the program. Working in close cooperation with local partners, these organizations have provided much-needed health services, primarily by helping impacted communities organize to better manage a difficult situation. In FY 2002, over half a million individuals benefited from health, community development, economic opportunity development, and support services targeted on displaced populations and impacted communities. Health services have been demonstrably improved, economic opportunities for the displaced are greater, and communities are better able to deal with the crisis on a self-help basis.

The institutions of democratic governance and the rule of law are weak in Azerbaijan. However, the country is moving slowly, but positively, in the direction of representative democracy. USAID-funded grantees actively promote civil society dialogue with the government, and are developing the institutions, precedents, and public awareness needed to foster the emergence of a viable, effective democracy. Civil society is being helped to organize in support of human rights, the rule of law, and democratic process. A free, independent, and professional media is being nurtured. Legal professionals are receiving professional development training, furthering their understanding of the law, the rule of law, the administration of justice, and the protection of individual rights. Political parties are being helped to organize and define themselves and their role. Lastly, the electoral process is being strengthened and a role in it for civil oversight is being defined. Specifically, in FY 2002, 226 organizations were supported; 5,929 individuals were provided with advocacy, outreach, ethics and management skills; 355 advocacy events were organized; 13,807 individuals accessed legal information and resources; 141 media professionals received new skills; and 47 regional media exchanges occurred.

Private Sector development is essential if Azerbaijan is to broaden its economic base and provide equitable economic opportunity. Small- and medium-sized enterprises lack a framework in which they

can discern and respond to market signals. Access to credit, business services, technical and business training, and production inputs is inadequate. From being a major regional exporter of agricultural products in prior years, Azeri farmers and agro-businesses are today increasingly unable to compete domestically with imports from Europe and neighboring countries. Business-friendly economic policies are critical. Moreover, a less-encumbered and more appropriately- regulated free market economic structure is needed to guide efficient investment -- a factor of great importance with or without rising petroleum revenues.

USAID partners are active in supplying agricultural and agro-industrial credit, production inputs, and business services. They are developing and promoting institutional infrastructure (private firms and business associations) to meet these needs on a sustainable basis in limited but catalytic target areas. USAID private-sector development activities disbursed more than \$5,000,000 in credit to over 2,500 recipients in FY 2002. This credit has sustained more than 8,000 local businesses and been instrumental in the creation of more than 2,000 new businesses. A 99% repayment rate has been achieved. Further, through training and consulting services, USAID enabled more than 40 SMEs to adopt international standards and better compete for contracts with international firms, mostly in the oil sector. With the waiver of Section 907, USAID began implementation of a modest economic reform program. Already, project-funded technical advisors working with the National Bank have introduced better practices for bank inspectors. The program to help automate Azerbaijan's Treasury also is well underway. To support private sector development, USAID will be increasingly active in promoting efficient, effective, and market-oriented economic governance.

Gender Disparities: USAID/Caucasus-Azerbaijan has integrated gender issues into its programs, particularly in democracy and governance and private sector development activities, to ensure that men and women can participate in, and benefit from, programs equally.

Traditionally, women have not been involved in many aspects of public life in Azerbaijan. USAID-funded programs have introduced more balance in this area by involving women in advocacy and outreach activities. In FY 2002, the number of women trained in advocacy and outreach activities reached 1,774 as compared with 806 in FY 2001.

Environmental Compliance: The mission reviewed all strategic objectives and determined that all current activities are in the compliance with approved Initial Environmental Examinations. Environmental Assessments, Categorical Exclusions and all required mitigations and conditions are being followed.

Country Closeout & Graduation: None

D. Results Framework

112-013 Accelerated growth and development of private small and medium enterprises in targeted areas

SO Level Indicator: Employment of assisted enterprises

Employment of assisted enterprises

Employment of assisted enterprises

IR 13.1 Increased access to production inputs

IR 13.2 Increased access to credit

IR 13.3 Increased Market Responsiveness of Enterprises

IR 13.3.1 Improved Enterprise Business, Technical, and Marketing Skills

IR 13.3.2 Increased Adoption of Grades and Standards

IR 13.3.3 Improved Access to Market Information

IR 13.4 Private Membership Associations Organized

IR 13.5 Improved Policy/Legal/Regulatory Environment and Physical Infrastructure Supporting Small and Medium Enterprises

Discussion:

112-0130 Accelerated Development and Growth of a Small and Medium Enterprises in Targeted Areas

Discussion:

112-021 Civil society better organized and represented

SO Level Indicator: Percentage of target population aware of at least one issue-based organization or advocacy group

IR 21.1 Issues-based formal and informal associations/advocacy groups organized and active

IR 21.1.1 Improved Capacity for Public Outreach and Advocacy

IR 21.1.2 Improved Organizational Management

IR 21.2 Legal and Policy Advocacy Environment Supports Civil Society and Media Development

IR 21.2.1 Increased Professionalism of Civil/Human Rights Lawyers and Judges

IR 21.2.2 Adoption and Implementation of Key Laws and Policies in Accordance with International

Standards

IR 21.2.3 Increased Public Awareness of Legal, Policy & Political Advocacy Framework

IR 21.3 Increased Access to Objective/Varied Information

IR 21.3.1 Increased Professionalism of Media

IR 21.3.2 Increased Regional Media Linkages

Discussion:

112-0210 Civil Society Better Organized and Represented

Discussion:

112-031 Reduced human suffering in conflict-affected areas

SO Level Indicator: Crude mortality rate

SO Level Indicator: Morbidity rate

SO Level Indicator: Nutritional status of children under 5

IR 31.1 Vulnerable communities better able to meet their own needs

IR 31.1.1 Increased Access to Economic Opportunities and Support Services

IR 31.1.2 Communities Organized to Address Self-Defined Needs

IR 31.1.3 Communities Have Access to Better Quality Services

Discussion:

112-0310 Reduced Human Suffering in Conflict-Affected Areas

Discussion:

112-0420 Cross-Cutting Programs

Discussion: