



USAID
FROM THE AMERICAN PEOPLE

**TRADE AND INVESTMENT REFORM
SUPPORT PROGRAM IN AZERBAIJAN**



QUARTERLY REPORT

JANUARY 01 – MARCH 31, 2008 (Q2, 2008)

**USAID TRADE & INVESTMENT REFORM SUPPORT
PROGRAM IN AZERBAIJAN**

31 March 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International.

QUARTERLY REPORT

JANUARY 01 – MARCH 31, 2008 (Q2, 2008)

**USAID TRADE & INVESTMENT REFORM SUPPORT
PROGRAM IN AZERBAIJAN**

**Contract No. AFP-I-00-04-00002-00, Task Order #10
under the SEGIR Commercial, Legal and Institutional Reform Indefinite
Quantity Contract (CLIR IQC)**

**Chemonics International, Prime Contractor
AECOM International (formerly The Services Group), Subcontractor
Economic Integration Forum, Subcontractor**

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

CONTENTS

EXECUTIVE SUMMARY	9
EXECUTIVE SUMMARY	9
PROJECT BACKGROUND	12
PROGRAM DESCRIPTION	12
COMPONENT 1 – WTO ACCESSION	13
INTRODUCTION	13
THE ACCESSION PROCESS	13
<i>Working Party Meeting Support</i>	13
<i>Bilateral Negotiations on Market Access</i>	13
LEGAL REFORM	13
TRAINING	14
INSTITUTIONAL REFORM	15
WTO SUMMARY	16
COMPONENT 2 – TRADE AND INVESTMENT REFORM	16
INTRODUCTION	16
INVESTOR PROTECTION, PROMOTION, AND INSTITUTIONAL GOVERNANCE	16
<i>Collective Investment Fund Support and Promotion</i>	16
<i>Competition Policy/Anti-Monopoly Regulation</i>	17
<i>Investment Activity Law Reform</i>	18
<i>Tax Policy and Administration</i>	19
<i>Procurement Law Reform</i>	20
<i>Corporate Governance Strengthening</i>	22
<i>Property Rights Registration</i>	24
<i>Institutionalizing Mediation</i>	24
<i>Streamlining Business Closure</i>	25
SANITARY AND PHYTO-SANITARY (SPS) AND AGRICULTURAL POLICY	26
UTILITIES SECTOR REFORM	28
DEMAND-DRIVEN TRADE AND INVESTMENT ACTIVITIES	32
<i>Economic Modeling and Monetary Policy Assessment</i>	32
<i>Tax Revenue Estimates</i>	33
<i>Additional Institutional Strengthening Activities</i>	33
<i>Telecommunications Assessment</i>	34
<i>Cooperative and Municipal Bank Finance Assistance</i>	34
STAFFING	34
ANNEX A. USAID TRADE AND INVESTMENT REFORM SUPPORT PROGRAM IN AZERBAIJAN ORGANIZATIONAL PLAN	35
ANNEX B. DRAFT LEGISLATION SENT TO WTO SECRETARIAT	36
ANNEX C. USAID NEWS STORY – CONSUMER RIGHTS	46
ANNEX D. SUCCESS STORY – JUMP-STARTING AZERBAIJAN’S STALLED WTO DRIVE	47
ANNEX E. LEVEL OF EFFORT SUMMARY	48
ANNEX F. TIRSP DELIVERABLES SUMMARY	49

Cover Photo: Azerbaijan TIRSP specialist Ben Irvin delivers customs valuation training to Government of Azerbaijan officials. This training-of-trainers seminar, together with TIRSP's finalization of the customs valuation manual, will ensure sustainability in WTO compliance efforts in this area. Photo credit: Sabuhi Hasanov, Azerbaijan TIRSP, 2008.

ACRONYMS

ABA-ROLI	American Bar Association Rule of Law Initiative
AIC	Azerbaijan Investment Company
AZE	Working Party file code for questions on Azerbaijan accession to the WTO
CAC	Codex Alimentarius Commission
CDG	Corporate Governance Division (within Ministry of Economic Development)
CLIR IQC	USAID Commercial, Legal and Institutional Reform Indefinite Quantity Contract
DTRA	US Defense Threat Reduction Agency
EIF	Economic Integration Forum
ERRA	Energy Regulators Regional Association
FORECAST	USAID Focus on Results: Enhancing Capacity Across Sectors in Transition Countries program (implemented by World Learning)
FSSP	USAID Financial Sector Strengthening Program
GOAJ	Government of Azerbaijan
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IPP	independent power producer
IPPC	International Plant Protection Convention
IPR	Intellectual Property Rights
LOE	Level of Effort (in person-days)
MED	Ministry of Economic Development (Government of Azerbaijan)
MOU	Memorandum of Understanding
MP	Member of Parliament
NARUC	National Association of Regulatory Utility Commissioners
OECD/DAC	Organisation for Economic Co-operation and Development/ Development Cooperation Directorate
OIE	<i>Office International des Epizooties</i>
PDP	USAID Parliamentary Development Program
PSCEP	USAID Private Sector Competitiveness Enhancement Program
SCMSP	State Committee on Management of State Property
SME	Small and Medium-Size Enterprise
SO	USAID Strategic Objective
SOE	state-owned enterprise
SOW	Scope of Work
SPA	State Procurement Agency
SPS	Sanitary and Phyto-Sanitary
SSRRE	State Service for Registration of Real Estate
TBT	Technical Barriers to Trade
TC	Tariff Council
TIRSP	USAID Trade and Investment Reform Support Program in Azerbaijan
TSG	The Services Group
UNCITRAL	United Nations Commission on International Trade Law

USAID	U.S. Agency for International Development
USEA	U.S. Energy Association
US FTC	U.S. Federal Trade Commission
USTDA	U.S. Trade Development Agency
WTO	World Trade Organization
WTO GPA	World Trade Organization Government Procurement Agreement

EXECUTIVE SUMMARY

The first quarter of 2008 (our second quarterly report of the project year) showed a progression from preliminary assessments related to developing the Year One Work Plan, to full project implementation and the project's first recognizable impact. At the same time, the project strengthened existing counterpart relationships and identified new areas for technical and financial cooperation.

Following a first quarter of assessments and laying the foundation for World Trade Organization (WTO) accession progress, the second quarter of the USAID Trade and Investment Reform Support Program in Azerbaijan saw notable successes, including the completion and acceptance of the fourth draft of the Year One Project Work Plan. In perhaps the quarter's most outstanding success, the WTO Working Group set a date – after a three year hiatus – to discuss Azerbaijan's accession progress, thereby getting Azerbaijan back on track to move forward its drive to join the WTO.

WTO Support (Component One)

Packages were finalized and support for questions generated by the offer were provided by TIRSP as plans were finalized for the May 6 Working Party meeting. TIRSP assisted the GOAJ in responding to the EU request to contrast the HS 2002 and 2007 nomenclature. Further, looking forward, TIRSP lobbied to have strategic laws such as the Law on Procurement included in the draft of the second Presidential Decree mandating legal reform in support of WTO.

A number of laws remain in draft form and are the subject of continuing technical assistance covering licensing, border enforcement of intellectual property rights, unfair trade measures, seven intellectual property (IP) laws, securing IP rights and combating piracy, broadcasting organizations, food safety, sanitary and epidemiological well-being of the population, trade regulation, the Customs Tariff Law and procurement. A list of laws amended or in the process of being amended with the support of TIRSP is contained in Annex B.

TIRSP intervened to prevent the imposition of a ban on genetically modified organisms (GMOs). The ban, if implemented, could have had a dampening effect on bilateral negotiations with strategic trading partners.

WTO training continued with a successful train the trainers program on customs valuation.

In addition, the institutional reform assessment was completed which identified reforms that TIRSP will facilitate as well as additional efforts that other donors and the GOAJ may support.

The Business Environment Component (Component Two)

Investor Protection, Promotion and Institutional Governance

- TIRSP moved forward its support for collective fund support and promotion by negotiating an MOU with the Azerbaijan Investment Company. The MOU should be signed early next quarter.
- The Competition Code is scheduled for passage in the spring Majilis session. Significant analysis and discussion has taken place in the Presidential Administration, Ministry of Economic Development (MED), and the Economic Commission of the Majilis. TIRSP has provided suggested amendments to the Code and will continue to promote the amendments put forth next quarter.
- A comprehensive analysis of the Law on Investment Activity has been provided to the Economic Commission of the Milli Majilis and the Presidential Administration, together with comprehensive pro-reform amendments.
- Tax policy and legislative advisors appear to have met with success in promoting significant reforms of the VAT, corporate and personal income tax regimes. At least half of TIRSP's proposed amendments appear to be under active consideration.
- The State Procurement Agency has been working closely with TIRSP to draft amendments to the Public Procurement Law as a first step in a comprehensive overhaul of the public procurement system.
- TIRSP continues to work with the Corporate Governance Division (CGD) of MED with a particular focus on state-owned enterprise (SOE) reform. At quarter's end, a new draft Law on SOEs was distributed to CGD to be presented to the Task Force for discussion at its next meeting.
- The draft Collateral Law has been finalized. TIRSP and ACDI-VOCA SME Finance Project are awaiting formal government submission of this draft. There appear to be few, if any, major political obstacles to moving the draft law forward and subsequently establishing an effective pledge registry.
- Initial coordination with several USAID Democracy and Governance partners bodes well for a combined effort to support formal introduction of mediation as a dispute resolution mechanism.
- Changes to the Bankruptcy Law will be a focus of next quarter activities as MED has endorsed our business closure streamlining plan.

SPS and Agricultural Policy Activities

Several SPS activities and plans were formalized over this quarter:

- Over 18 high level institutional and administrative reform activities were included in the final version of the TIRSP work plan.
- Agreement was reached on the establishment of a series of 3 joint training programs with USDA focusing on inspection, border inspection, and risk assessment and management. The first training will have over 100 attendees with representatives from GOAJ, industry, the Consumers Union, NGOs, and academic institutions.
- The TIRSP SPS 2008 work plan was reviewed with each affected ministry and assurances and buy-in was obtained to support the programs.
- The program was also reviewed with key donors including the World Bank, FAO, GTZ, BP Enterprise Center and DTRA. Several areas were identified for potential cooperation and mutual support.

- Meetings were held with key industry leaders including Coca Cola, McDonalds, and Citimart to discuss areas of potential collaboration and support to help improve exports, increase competitiveness, and build public-private partnerships.
- TIRSP sponsored a successful Consumer Rights conference where Dr. Tom Deeb spoke on the role of consumers within the WTO/CODEX accession process.

Utility Sector Reform

Reports/assessments/presentations completed this quarter include:

- Tariff Council Restructuring Report
- Azerbaijan Fuel Energy Balance Projections 2008 to 2015
- Azerbaijan Fuel Energy Balance Report 2008
- Relative Benefits of an Independent Power Producer (IPP) over Native Generation
- Water Sector Reform Briefing Paper
- Moldova Study Tour Justification
- Basic Concepts and Terminology Presentation (Tariff Council)
- The Role of a Regulator
- How a Regulatory Body Works

Successful interventions include with respect to pilot program initiatives as both MED and Azerigas now appear ready to give the pilot programs serious consideration. Conversations have commenced between USAID and the SCMSM on technical support for privatization initiatives. Regional coordination has been fostered by TIRSP participation in regional events and contemplated future support of ERRA and NARUC activities. The Tariff Council continues its participation in a series of trainings. Further, MED is now giving more serious consideration to proposals to strengthen the Tariff Council.

Demand-Driven Trade and Investment Activities

- Tax reform revenue impact analysis is the most critical of these activities as it will be used to justify our platform of tax reforms.
- The Protasi Report on monetary policy was well received by the National Bank.
- Further institutional support efforts have been facilitated by TIRSP through programs such as FORECAST while attempting to leverage program resources and continue with substantive technical support.
- Pending assessments include assessments on the telecommunications sector and rural financing (such as through credit unions).

Staffing Changes

In February 2008, Deputy Chief of Party Joseph Downey/Deaunay left the project. With the Year One Work Plan completed, Chief of Party Darrell Brown is discussing with USAID how to most appropriately fill this position to meet project objectives. TIRSP anticipates filling this position early in the next quarter. Six short term consultants were deployed over the quarter.

PROJECT BACKGROUND

The USAID Trade and Investment Reform Support Program in Azerbaijan (Azerbaijan TIRSP) began as Azerbaijan's economy faced great challenges and opportunities. While the current economy is facing macroeconomic mismanagement and a poor business enabling environment, the Government of Azerbaijan (GOAJ) has shown renewed interest in acceding to the World Trade Organization (WTO). This requires comprehensive legislative, regulatory, and institutional reforms to promote an enhanced enabling environment for private investment and sustainable job creation, and remove barriers which inhibit competition, distort investment flows and limit economic integration.

The GOAJ began the WTO accession process in 1999. Since that time, they have had four Working Party and two bilateral meetings. But progress halted in 2005, due to concerns about the GOAJ's political will to reform. Though this may still be an issue, there are signs of renewed commitment to accession. These include the public commitment of President Ilham Aliyev and the U.S. Ambassador to Azerbaijan, as expressed through the U.S.-Azerbaijan Economic Partnership Commission. The resulting communiqué set the stage for bilateral technical assistance for accession—hence, Azerbaijan TIRSP.

Azerbaijan TIRSP, a two-year, \$7.2 million task order under the Commercial Legal and Institutional Reform (CLIR) IQC, began in August 2007. Chemonics implements the project in collaboration with AECOM International (formerly The Services Group (TSG)), and Economic Integration Forum (EIF).

Program Description

Azerbaijan TIRSP is divided into two components: WTO Accession (Component One) and Trade and Investment Reform and Investment Environment (Component Two). Under Component One, the project provides technical assistance and training to facilitate Azerbaijan's accession to the WTO and build institutional capacity for WTO compliance.

Component Two works to improve the enabling environment in non-oil sectors by providing assistance in a wide range of areas, including tax administration and policy; competition law; moveable property registration; utilities sector restructuring and regulatory reform; licensing and permit systems and procedures; free economic zone/industrial park strategies; agricultural policy and sanitary/phytosanitary regimes; telecommunications; and e-signature implementation. In investor protection – also under Component Two – TIRSP supports corporate, state-owned enterprise, and investment fund governance, company and securities law review, and enhanced dispute resolution procedures. Assistance under Component Two includes assessments, technical assistance, targeted trainings, and capacity-building.

There are clear synergies between Components One and Two [e.g., competition policy, agricultural policy, sanitary/phyto-sanitary inspection (SPS)]. Activities in one component reinforce those in the other, and serve the overall project goal of increasing the competitiveness of Azerbaijan's non-oil economy. Both components also contribute to the fight against corruption by reducing discretionary bureaucratic behavior across a range of regulatory areas.

COMPONENT 1 – WTO ACCESSION

Introduction

One of Azerbaijan TIRSP's most notable successes in this reporting period was seeing its technical assistance lead to the WTO scheduling its first Working Party meeting with Azerbaijan in three years. The meeting is now expected to take place on May 6. This is clear evidence that the GOAJ has made significant progress moving toward the WTO accession objective. This success is due in no small part to the concentrated TIRSP technical assistance related to the accession process (which includes working party meeting and bilateral negotiations on market access support), advisory services respecting legislative reforms, and capacity building through training and awareness programs.

The Accession Process

Working Party Meeting Support

An initial goal of our WTO work was to secure a working party meeting in Geneva. This was accomplished in this quarter when the WTO Secretariat confirmed May 6, 2008 as the date of the meeting in Geneva (see the USAID Success Story in Annex A). TIRSP assisted in preparing and sending the revised legislative action plan to the WTO Secretariat. The EU raised two sets of questions (general and agricultural) after a review of the materials. TIRSP assisted the GOAJ in preparing replies to these inquiries.

A fourth package of materials was finalized and sent to the WTO Secretariat. This package included:

- Draft amendments to the sanitary and epidemiological law,
- Draft amendments to the food law,
- Draft amendments to the customs tariff law,
- Draft State Program on Intellectual Property,
- A summary of the aforementioned reforms, and
- ACC/8 conformity chart for SPS-Food aspects.

TIRSP also assisted the GOAJ in packaging previously completed work including:

- A package of all adopted legislations in Azerbaijani and English,
- Azerbaijani versions of the second package sent to Geneva, and
- An Azerbaijani version of the third package sent to Geneva.

Bilateral Negotiations on Market Access

TIRSP assisted the GOAJ in responding to the EU request to contrast the HS 2002 and 2007 nomenclature.

Legal Reform

TIRSP provided advice to the GOAJ as to what laws should be included on the new legislative agenda designed to further facilitate WTO accession. This is done in the form

of a Presidential Decree which lists the legislation to be reviewed and amended. A point of contention was whether to include the Law on Procurement in the list. TIRSP strongly opposed efforts on the part of the GOAJ to remove this law from the list. The Law on Procurement is of particular interest not only for WTO accession purposes but also in support of anti-corruption initiatives. By the end of the quarter, the draft decree had been submitted to the Cabinet of Ministers and included the Law on Procurement.

TIRSP continues to play a key role in supporting legal reforms intended to achieve conformity with WTO agreements. A number of laws remain in draft form and are the subject of continuing technical assistance covering licensing, border enforcement of intellectual property rights, unfair trade measures, seven intellectual property (IP) laws, securing IP rights and combating piracy, broadcasting organizations, food safety, sanitary and epidemiological well-being of population, trade regulation, the Customs Tariff Law and procurement. A list of laws amended or in the process of being amended with the support of TIRSP is contained in Annex B.

One draft law scheduled for passage in the spring session of the Milli Majilis could have triggered problems in bilateral negotiations. The Draft Law on Ecologically Clean Agriculture contained provisions prohibiting genetically modified organisms (GMOs). After considerable discussion with the Economic and Agricultural Commissions at the Majilis, agreement was reached to delete the GMO prohibition. The draft law, if passed in its current form, will contain GMO labeling requirements but not product importation prohibitions.

Training

Mr. Ben Irvin provided a two-week customs valuation training which was well received by the Customs and MED attendees. Customs officials have requested further training assistance including training on rules of origin. In addition, they have asked that TIRSP consider completing a full review of the Customs Code. Their concern is that they have received technical assistance from a variety of sources over the course of the drafting of the Code and there may be inconsistencies in methodology and content.

Throughout the course of modifying the above-noted laws, there has been extensive on-the-job training as counterparts gain an understanding of the issues and best practices associated with the various subject laws.

Institutional Reform

An institutional reform paper proposing reforms in support of WTO succession was finalized and submitted to USAID. In accordance with the paper, an institutional reform work plan was completed which proposed the following initiatives.

Institutional Reform

- 1. Membership in Codex Alimentarius:**
 - Roadmap for Membership (done)
 - Legislation to establish national contact/liaison point (on-going)
 - Application preparation and submission (on-going)
- 2. Restructuring of the Department of Foreign and Economic Cooperation at the Ministry of Economic Development (MED):**
 - Proposal for restructuring (on-going)
- 3. Trainers on Customs Valuation within the State Customs Committee capable of training other customs officers on Customs Valuation:**
 - Train-The-Trainers Program (on-going)
 - Syllabus and Training Manual on Customs Valuation (done)
- 4. Customs Administrative Appeal Body:**
 - Legislation to provide legal authority
 - Organizational structure and functions
- 5. Customs Binding Rulings Unit (rules of origin):**
 - Legislation to provide legal authority
 - Organizational structure and functions
- 6. TBT Enquiry Point at the State Agency on Standardization and Patent:**
 - Legislation to provide legal basis (done)
 - Organizational structure and functions
- 7. Policy Monitoring and WTO Reporting Unit:**
 - Legislation to establish and provide authority
 - Manual for computation of Aggregate Measurement of Support (AMS)
 - Manual for preparation of ad-hoc notifications (translation of WTO prepared guidelines)
- 8. Greater Transparency in Government Procurement:**
 - Proposal for a modern system at the State Agency on Government Procurement for collecting and reporting statistics on public procurements
- 9. Inter-Agency Commission on IP Enforcement:¹**
 - Legislation to provide legal basis
 - Organizational structure and functions
- 10. GATS Enquiry Point at the MED:**
 - Legislation to establish and provide authority
 - Organizational structure and functions

¹ Contingent upon political support and will.

As indicated in the above table, TIRSP has been assisting the GOAJ regarding their preparation for application to the Codex Alimentarius. TIRSP has discussed the process and institutional reform roadmap with the Ministry of Health to support Codex Alimentarius membership. A manual was prepared and distributed to attendees at the customs valuation training. A train-the-trainers format was used so that knowledge gained and materials supplied can be disseminated to others in the customs valuation sphere. Concurrent with this training, the current structure of the Trade Department at the Ministry of Economic Development was examined and a proposal was drafted for its restructuring to accommodate the establishment of a new WTO Department.

WTO Summary

Significant progress has been gained on all aspects of Component One work. The working party meeting will be the focal point of the next quarter, as it will drive TIRSP support (See the USAID Success Story in Annex C). To the extent that questions cannot be answered in Geneva by the GOAJ negotiating team, TIRSP will stand ready to provide technical assistance in developing answers. Our lead local and expatriate WTO experts will accompany the GOAJ team to Geneva to provide technical assistance on an as-needed basis. However, concurrent with WTO negotiations, the TIRSP team will continue to support legislative drafting designed to achieve WTO compliance, targeted training and institutional reforms.

COMPONENT 2 – TRADE AND INVESTMENT REFORM

Introduction

The Component Two agenda presents a broad-based portfolio of business environment activities as its starting point. In the first months of the project, specialists completed assessments in areas key to Azerbaijan's enabling environment and TIRSP activities. These assessments led to the strategy laid out in the Year One Work Plan, which organized project activities into four main areas of focus: 1) investor protection, promotion, and institutional governance; 2) sanitary and phyto-sanitary (SPS) and agricultural policy; 3) utilities sector reform; and 4) demand-driven trade and investment activities. The final category allows TIRSP to work flexibly and responsively to meet Azerbaijan's development needs in the diverse areas which fall under Component Two.

Investor Protection, Promotion, and Institutional Governance

Collective Investment Fund Support and Promotion

This quarter TIRSP and USAID met several times with representatives from the USAID Financial Sector Strengthening Program (FSSP) to carve out areas of collaboration and assistance with the Azerbaijan Investment Company (AIC). This resulted in the drafting of a Memorandum of Understanding (MOU) between USAID and AIC which charts the level and type of assistance that will be provided by the two projects to AIC.

FSSP has commenced its activities which include work on business plan development, investor relations, business development / deal sourcing, analytical tools and methodologies, the deals pipeline, prospective investment processing, monitoring the investment portfolio, personnel matters, fund leverage opportunities and alternatives, and launching the Azerbaijan Venture Capital Association.

AIC agreed that TIRSP would offer complementary services focusing primarily on governance issues including developing terms of reference for the Supervisory Board, detailed guidelines for the Board, terms of reference for directors, an AIC code of conduct, detailed terms of reference for each key position, guidelines for each committee established by the Supervisory Board, the establishment of a Board effectiveness assessment process, and the establishment of a director compensation, travel and expense policy.

In addition to the above governance consultations, TIRSP committed to assisting with the design of sub-fund legal structures; asset management, administration, and custodial services policies; transparency and disclosure procedures; asset valuation methodologies; and management expense and investment policy determination and review on an as-needed basis.

At the quarter's end, the MOU was still in draft form but there were no outstanding, contentious issues. TIRSP had engaged in preliminary discussions on Tax Code issues affecting initial public offering share purchases and had initiated dialogue with the State Securities Commission on related collective investment fund regulatory issues. However, the core AIC governance assessment and assistance work had not commenced.

Expected assistance in the next quarter will include:

- AIC governance assessment and preparation of recommendations;
- Submission of Tax Code amendments related to AIC tax issues;
- Further dialogue with the Securities Commission on the development of best practice collective investment fund regulation;
- Targeted assistance on financial intermediary issues affecting AIC sub-funds.

Competition Policy/Anti-Monopoly Regulation

Our primary Competition Code consultant, Daniel Fitzpatrick, returned to Baku in February to continue dialogue on Competition Code issues and revise related legislative proposals. Both during Mr. Fitzpatrick's trip and afterward, TIRSP has engaged in extensive discussions primarily with the Economic Commission of the Majilis but also with MED Deputy Minister Niyazi Safarov; Head of the Legislative and Legal Expertise Department of the Executive Office of the President, Shahin Aliyev, representatives of the U.S. Federal Trade Commission, and World Bank consultant Mark Warner.

Primary issues under discussion include:

- The method by which firms would be found to hold a dominant position;

- The extent that the Competition Body should be involved in pricing decisions of either dominant firms or natural monopolies; and
- The role that the Competition Body should play in identifying and raising public concerns about state supported monopolies.

TIRSP has provided the Economic Commission with proposed revisions to the Code, explanatory notes, and background materials supporting our recommendations. At the end of the quarter, the Majilis had yet to consider the Code at Third Reading. We expect submission to the Majilis in May. An informal submission was provided to TIRSP by FTC on a confidential basis with explicit instructions that it was not for general circulation. We are awaiting formal input from the U.S. Federal Trade Commission and will facilitate the submission of FTC recommendations upon receipt.

Expected assistance in the next quarter will include:

- Continued dialogue on recommended changes to the Code;
- Presentation of a one day seminar on business environment issues in cooperation with the USAID Parliamentary Development Project which will include discussion of pending reforms in the Competition Code;
- Assessment of institutional reforms triggered by Code passage and preparation of a technical assistance implementation plan.

Investment Activity Law Reform

The legislative docket of the Milli Majilis' spring session includes the draft Law on Investment Activity. This law is intended to replace two laws that are currently in effect: The Law on the Protection of Foreign Investments, dated 14 January 1992, and The Law on Investment Activity, dated 13 January 1995. We have engaged in dialogue with a number of individuals in the Ministry of Economic Development to inquire as to the purpose of the new draft. The draft has existed in some form since 1999 and has been amended several times by different authors such that no one can speak to the intent of all provisions in the current draft.

TIRSP completed an analysis of the proposed law in February. A memorandum highlighting key issues, a revised draft law incorporating our proposed amendments, and a table of the proposed amendments with explanatory notes was prepared. Primary issues with the Government draft include the following.

- The Draft Law makes no provision for the grandfathering of rights, privileges and benefits accorded to investors under the previous laws referenced above;
- The Draft Law applies to capital investments and makes no provision for investments in general. It largely ignores the special needs and hence the benefits which enhanced foreign direct investment can bring to the Azerbaijani economy.
- More precise language is needed to ensure that:
 - Foreign investors are treated at least as favorably as domestic investors;
 - There is recourse to compensation for unlawful acts and expropriations;
 - Compliance with international financial reporting standards will suffice;

- There is no restriction on the free flow of money and investment returns within and outside Azerbaijan;
- International arbitration norms will be honored and not overridden through domestic courts decisions;
- Limitations on investments can be justified only on the basis of public order, health, safety, environment or national security;
- There is equal treatment in the implementation of investment activities;
- Transparency is required with all governmental bodies;
- The Government can be sued for breaches of the law and contract; and
- Safety and security of subjects and objects of investment are assured.

The draft law is being guided through the Majilis by the Deputy Speaker. We have provided the memorandum and supporting materials to the Economic Commission of the Majilis, discussed its contents and have confirmed that the materials have also been distributed to the Deputy Speaker. In addition, TIRSP recommendations were provided to the Head of the Legislative and Legal Expertise Department of the Executive Office of the President, Shahin Aliyev. At the end of the quarter, the draft law had yet to be considered by the Majilis.

Expected activities/outputs in the next quarter:

- Continued dialogue with the Economic Commission and the Deputy Speaker respecting recommended changes.
- Passage of an amended Law on Investment Activity.
- Commencement of a review of the Government's economic promotion and incentive policies.
- Inclusion of the Law on Investment Activity on the agenda of a one day seminar targeting Majilis deputies, Commission staff and MED representatives in cooperation with the Parliamentary Development Project.

Tax Policy and Administration

Dialogue continued with the Ministry of Finance (in particular with Alizade Nabiali, Head of the Tax Policy and Revenue Department) and Ministry of Taxes (in particular with Prof. Mirdamed Sadiqov, Head of Tax Policy and Strategic Research) regarding TIRSP's previous assessments of the Tax Code and related TIRSP recommendations. The previous recommendations were supplemented after discussing Tax Code issues with the AIC and American Chamber of Commerce. Legislative amendments were prepared by Marlene Laro, a short term legislative tax specialist to be presented to the respective ministries early in the next quarter.

Changes made to the Tax Code in December 2007 require the GOAJ to submit their assessment of the Tax Code and proposed revisions to the Majilis by May 15 each year. Consequently, both the Ministry of Finance and Ministry of Taxes have been working toward presentation of draft amendments to the Cabinet of Ministers by April 30 and to the Majilis by the May 15 deadline.

The amendments prepared by Ms. Laro and explanatory notes and supporting analysis prepared by Rup Khadka highlight the following priority areas for amendment:

- VAT: fix the VAT registration threshold on an annual basis at a lower level; adopt a monthly tax period for large taxpayers and a quarterly period for others; and adopt shorter refund processing period;
- Income Taxes: introduce a tax-free basic allowance; lower personal income tax and corporate tax rates and align them; abolish the dividend tax; reduce various concessions/incentives given under income taxes; and eliminate taxing the differential between the market price and the nominal/par value of shares in an initial public offering;
- Excise Duties: equalize the rates of excise duties on both imports and domestic products in order to make them WTO compliant; codify excisable products on the basis of the Harmonized Classification; and rationalize and simplify the excise tariff structure;
- Property Tax: integrate property tax and land use tax; reduce exemptions; and increase the tax rate
- Simplified Tax: adopt the threshold on an annual basis at a low level and simplify rate structure; and adopt anti-avoidance measures.

Expected activities and outputs in the next quarter include:

- Completion of a revenue impact analysis of the proposed amendments (to be completed by Selcuk Caner and Emil Guliyev);
- Presentation of amendment package including draft wording, explanatory notes, supporting policy analysis and revenue impact (to be compiled by Marlene Laro, Rup Khadka, Selcuk Caner, Emil Guliyev and COP);
- Develop recommendations for the integration of land and property tax and an implementation plan.

Procurement Law Reform

Simeon Sahaydachny, our primary procurement consultant, completed an institutional, process and legislative assessment last quarter. Key deliverables included training on procurement best practices as well as legislative, institutional and process reform recommendations. TIRSP committed to support the establishment of a transparent, modern, and automated procurement system. Early this quarter, WTO Expert Farhat Farhat met with representatives of the State Procurement Agency (SPA). They indicated that they had prepared legislative reform proposals. Consequently, TIRSP attempted to obtain copies of the proposals to facilitate the preparation of a consensus-based and unified set of legal reforms. TIRSP also made inquiries to the SPA to facilitate the gathering of procurement statistics on past procurements.

Concurrent with the above activities, TIRSP met several times with the Country Procurement Assessment Review (CPAR) team led by Devesh Mishra, lead procurement specialist at the World Bank. CPAR was provided with our recommendations and legislative reform proposals. At the time of the CPAR assessment, the GOAJ was also preparing a draft Presidential Decree that would mandate the reform of laws listed in the

decree for purposes of WTO compliance. The WTO unit within MED had maintained that it was not necessary to include the Law on Public Procurement in this list as it was not a WTO compliance issue. The CPAR team organized a roundtable of procurement stakeholders from the private sector, various ministries and agencies, and with representation from the SPA. COP Darrell Brown attended the session with the objective of presenting arguments in support of inclusion of the Law on Public Procurement in the draft Presidential Decree. The arguments presented included the following major points:

- All acceding countries to the WTO are expected to have in place legislation on government procurement stipulating sound and transparent government procurement procedures in line with the WTO Government Procurement Agreement (GPA) prior to accession.
- All countries acceding to the WTO are expected to submit in their Memorandum on the Foreign Trade Regime (MFTR) detailed information on Government procurement practices, including the general legal regime and procedures for tendering, dealing with tenders and award of contracts.
- Although in theory membership in the GPA is not mandatory, all acceding countries have been expected to, at a minimum, commit to negotiate accession to the GPA through (1) adhering prior to WTO accession to the GPA legal text and (2) tabling an entity offer for GP market access negotiations right after accession to the WTO.
- The current Law on Public Procurement of Azerbaijan does not comply with various WTO GPA legal provisions, or is unclear on certain issues that are important for making a WTO GPA compliance assessment.

The MED responded to Mr. Brown's presentation by publicly committing to inclusion of the Law on Public Procurement in the draft Presidential Decree. While it has been included in the Decree list, as of the end of the quarter, the Decree had not been issued. Inclusion in the list is fundamental. In order to have the various ministries and agencies respond to reform proposals, the reference point and authorization is the Decree. Inclusion and issuance of the Decree will ensure that the Law on Public Procurement will be included in the fall legislative agenda.

In early March it became apparent that the delay with the disclosure of SPA reform proposals was not due to any lack of willingness on the part of the SPA to work with TIRSP. To the contrary, the proposals had not been formalized. Furthermore, they acknowledged that they did not understand many of the legislative reforms proposed by Mr. Sahaydachny. They requested that Mr. Sahaydachny return to Baku to work with them in developing a joint set of proposals. Those sessions were scheduled for mid-April with a target of completing and submitting the legislative reforms by mid-June.

Expected outputs/deliverables for the next quarter include:

- A consolidated set of amendments to the Law on Public Procurement drafted jointly by TIRSP and SPA that complies with UNCITRAL, WTO GPA and OECD best practices;
- A detailed SPA workplan prepared with the assistance of TIRSP that includes:

- Activities designed to strengthen the technical capacity, staffing, management, and independence of the State Procurement Agency;
- The design of methodologies and systems to improve the collection and analysis of statistical and other relevant data;
- Enhanced alignment of procedures with international standards including the UNCITRAL Model Law on Procurement, the GPA and the OECD/DAC *Assessment Methodology*;
- Issuing consolidated regulations to provide detailed guidance for implementation of the Law; increased transparency, and more effective oversight and monitoring by the SPA as well as by civil society;
- Facilitating and regulating the use of electronic means in the procurement process; and
- In general, strengthening provisions and procedures so as to eliminate opportunities for non-transparent practices that may erode confidence in the process.

While TIRSP will assist in the development of the work plan, it will not provide direct assistance in all aspects of the work plan. In future quarters, TIRSP will provide targeted assistance that includes development of the supporting regulations and procedural reform proposals in support of a more transparent, regularized procurement process and support for e-signature implementation that can, in turn, be applied to promote e-bidding through an automated, objective process. With respect to other activities, TIRSP will assist in coordinating with other donors and USAID projects to provide dedicated support aimed at implementing the above recommendations.

Corporate Governance Strengthening

The Cabinet of Ministers established an inter-agency corporate governance task force housed under the Corporate Governance Division (CGD) in MED. TIRSP attended its first meeting last November and has since become a regular participating member in the Task Force. The Task Force includes members from the Ministry of Justice, the National Bank, the State Committee on Securities, the International Financial Corporation, and the AIC.

SOE Reform. CGD is promoting a move to an SOE ownership structure that would have the Government sit as a shareholder with the same rights, duties and responsibilities as any other shareholder under company law legislation. This would have the effect of placing ownership and management of assets at the company level instead of under the direct control of the State Committee on the Management of State Property (SCMSP). TIRSP provided a skeleton framework of the draft SOE law early this quarter and requested feedback on a host of policy issues raised with a move to corporatization. No reply was received from CGD on these questions. Darrell Brown and Emin Ismayilov met in late February with Mr. Tapdigov to clarify the status of our inquiries. It became clear from the meeting that it would be better to formulate a draft law in detail, present it to CGD and then field questions that would arise from a review of the specific provisions. Darrell Brown drafted an SOE model law that would, if implemented, establish a state-owned holding company under which designated state-owned enterprises (SOEs) would be corporatized. Shares would be held through the holding company and shareholder rights

exercised by the holding company. Governance best practices were incorporated into the draft including:

- rules and procedures respecting board membership;
- prohibitions against undue influence by GOAJ representatives including ministers in the operation of SOEs;
- restrictions on GOAJ lending to SOEs to level the playing field;
- financial disclosure and reporting using International Financial Reporting Standards (IFRS) and ensuring public availability on a quarterly basis;
- external audit requirements with audit committee oversight;
- compensation, benefits and expense reimbursement policies established independent of government restriction on a best practice basis;
- mechanisms for GOAJ guarantee of private sector debt to SOEs;
- Conflict of interest guidelines covering disclosure and withdrawal of decision making powers in appropriate circumstances;
- Reliance on general wind-up and dissolution procedures to ensure creditor rights are preserved;
- Deference to company law unless stricter governance and procedural requirements apply under the SOE law;
- Investment policy requirements for the holding company which stipulate the investment standards and require annual review and publication; and
- General governance requirements similar to those stipulated above for SOEs not falling under the holding company umbrella.

At quarter's end, the draft had been distributed to CGD to be presented to the Task Force for discussion at the next Task Force meeting. However, the SCMSP has developed an alternative draft suggesting that there may be an inter-institutional battle for policy dominance in this sphere.

Company Law Reform. In the past, IFC has taken the lead role advising on the development of a Corporate Governance Code and on revisions to company law as embodied in the Civil Code. Over the course of the quarter, TIRSP requested that specific reform proposals on the Civil Code and the Corporate Governance Code be provided for our review and comment. We have received GTZ recommendations prepared last year; however, as of the quarter's end, no documents have been provided respecting IFC assistance other than a table of contents for a proposed Corporate Governance Code distributed at the last Task Force meeting. In discussions with Sanan Tapdigov, Head of CGD, he asserted that there have been no specific Civil Code amendments drafted by IFC and there have been no detailed recommendations presented with respect to the Code.

In a meeting with Simeon Djankov of World Bank Doing Business and Aliya Azimova of the local IFC Office, Mr. Djankov indicated that two amendments to the Civil Code were prepared by IFC and have been submitted to the Majilis. These amendments were designed specifically to improve Doing Business scoring in this year's assessment. At quarter's end, we have not received the proposed amendments from CGD but are inquiring as to their content and will analyze upon receipt.

Expected next quarter outputs:

- Presentation of the conceptual framework for the SOE law to key counterparts including Task Force members, senior MED officials, representatives from the Presidential Administration and as part of our Majilis education initiative in conjunction with the Parliamentary Development Project (PDP);
- Development of a consensus draft of the SOE law;
- Review of Task Force Corporate Governance Code recommendations;
- Wholesale review of Civil Code company law provisions, development of TIRSP recommendations and draft language for presentation to CGD and the Task Force.

Property Rights Registration

TIRSP, together with the SME Support through Financial Sector Development Project, implemented by ACDI-VOCA, and representatives from the Foreign Investment Advisory Service (FIAS), have provided review and comment on a series of drafts of the Law on Collateral. An informal inter-agency working group of government officials coordinated by the director of the legal department at the State Service for Registration of Real Estate (SSRRE) has been the prime body working on the issue. There appear to be few, if any, major political obstacles to moving the draft law forward and subsequently establishing an effective registry.

In February, our collateral law expert, Daniel Fitzpatrick, reviewed progress on the draft law. In addition to his review, input was received from Everett Wohlers of FIAS and ACDI-VOCA brought in a registry expert to review the legal provisions as a pretext to establishing the registry. The draft law has been finalized. It is now up to the SSRRE to advance the draft through the formal legislative development process. As of the end of the quarter, there was no indication that a formal submission of the draft was immediately pending.

Expected next quarter activities:

- Assist SSRRE and ACDI/VOCA on an as needed basis to move the Collateral Law through the formal submission process;
- Include a discussion of the Collateral Law on the agenda of laws to be presented to Majilis deputies, Commission members and GOAJ representatives as part of the TIRSP/PDP training initiative;
- After development of a registry implementation plan by ACDI/VOCA consultants, review the proposed registry framework. (Commencement of this activity will depend on the progress of the law and registry implementation plan development.

Institutionalizing Mediation

The TIRSP work plan specifies technical support for institutionalizing mediation with extensive coordination with other USAID partners to support implementation and institutional development. In February, a series of meetings were held amongst USAID partners including Counterpart International, CHF, Irex, ABA-ROLI, World Learning and the Parliamentary Development Project. TIRSP assisted with the preparation of a

FORECAST technical support application that would target the development of a mediation association for Azerbaijan. We have discussed creating an integrated program where FORECAST and Counterpart could combine to support mediation institutional development, ABA-ROLI could support educational programs for the legal community, IREX could promote disseminating outreach messages to the business population, and the Parliamentary Development Project could assist in explaining the associated legislative initiatives to Majilis deputies, Commission members and their staff.

We foresee a two-step process:

- Although mediation could proceed without the introduction of a *Law on Mediation*, a law legitimizes the activity. To have potential participants view this activity through the appropriate lens, we will seek GOAJ endorsement to draft and support the passage of a *Law on Mediation*.
- Effective mediation requires a core group of trained mediators who are subject to minimum professional standards and certification. Consequently, the reform should include provision for creation and support of a mediators association designed with a mandate to certify and oversee mediators.

TIRSP will provide technical assistance which addresses drafting the law and technical elements of institution building, mediator certification and hands-on mediation training. TIRSP will also work with the other technical assistance providers to ensure that there is training on the *Mediation Law* and mediation techniques; targeted media campaigns in print, television and radio; education for local businesses; and direct institutional capacity building of a Mediators Association.

Expected outcomes in the next quarter:

- Obtain GOAJ support for the passage of a Law on Mediation and the creation of a Mediation Association;
- Identify local private sector partners;
- Complete a draft of a Mediation Law;
- Formalize coordination with other USAID partners respecting institution building, training, and public outreach.

Streamlining Business Closure

At the request of MED, TIRSP is reviewing business closure procedures. This entails an in-depth analysis of the bankruptcy system and business closure regulations and development of a plan that will streamline processes. Bankruptcy is not a major issue currently given the growth of the Azerbaijani economy. However, the Azeri government has expressed disappointment with the ratings that Azerbaijan has garnered under the World Bank's Doing Business initiative including the "Closing a Business" assessment, which focuses on the effectiveness of bankruptcy proceedings.

The Closing a Business standard in Doing Business focuses on identifying "weaknesses in existing bankruptcy law and the main procedural and administrative bottlenecks in the bankruptcy process." It evaluates bankruptcy proceedings through three factors:

- The average time to complete a procedure.
- The cost of the bankruptcy proceedings.
- The recovery rate (expressed in cents to the dollar) that claimants such as tax authorities, creditors and employees, are likely to receive from an insolvent firm.

In order to arrive at these individual factors the Doing Business officials have developed a hypothetical scenario involving a company owning a medium sized hotel in a large city. The hotel is in financial trouble. It has a substantial mortgage and is having trouble making payments to its suppliers.

This scenario is sent to practitioners in each country to estimate the time, cost and recovery rate that creditors should expect. These perceptions are then checked against legislation and other secondary materials regarding the particular bankruptcy system.

Bankruptcy advisor Daniel Fitzpatrick completed a preliminary assessment of Azerbaijani's bankruptcy system in February including the delivery of a report to MED with recommended reforms and next steps. The suggestions centered on three factors that shape a Closing a Business rating for a particular country: (a) duration of proceedings, (b) cost of proceedings, and (c) creditor recovery rate. It then discussed other reforms that, although falling outside these three factors, would nevertheless improve the bankruptcy regime.

MED has approved the recommendations in the report. TIRSP representatives have cautioned that associated reforms are not likely to result in an immediate improvement to Azerbaijan's closing a business score. Nevertheless, MED has requested that TIRSP proceed with the preparation of reform proposals that may lead to score improvements in the mid-term.

Expected outputs next quarter:

- A plan to streamline business closure; and
- Submission to MED of legislative and institutional reform recommendations.

Sanitary and Phyto-Sanitary (SPS) and Agricultural Policy

In January, TIRSP provided formal submissions of final reports from Dr. Richard Burcroff (on agricultural policy and food security), Thomas Hoffman (food safety) and Dr. Thomas Deeb (on the sanitary and phyto-sanitary system).

The purpose of Dr. Burcroff's report was to provide advisory assistance to the GOAJ on the draft agricultural sector strategy, the preliminary identification of four or more agri-food subsectors having trade or import substitution potential, advisory assistance on potential problems stemming from subsidies to agriculture and possible non-compliance with "green box" requisites and lectures and advisory assistance on strategies to improve food security.

Thomas Hoffman's report, as a Sanitary and Phyto-Sanitary/Food Safety Specialist, was to support Azerbaijan's efforts to improve food safety through conducting an assessment of food safety practices and determining the priority areas for TIRSP food safety activities, building on the work of the former SPS expert. Mr. Hoffman also worked closely with Dr. Deeb in jointly assessing Azerbaijan's agriculture and food system's ability to comply with SPS norms, to define gaps between the requirements and current state and to define a set of prioritized activities to close these gaps. While the focus of the work was on compliance to the International Plant Protection Convention (IPPC), the *Office International des Epizooties* (OIE), and the Codex Alimentarius Commission (CAC), many of the findings also impact trade competitiveness and were noted in the report.

Dr. Deeb's assessment evaluated Azerbaijan's ability to conform with SPS requirements to help enable WTO accession and secondly determined the government's ability to meet the requirements as outlined by the IPPC, OIE, and CAC.

In March, Dr. Deeb returned to Azerbaijan for a 20-day assignment to continue work on SPS activities. Several SPS activities and plans were formalized over the course of his assignment.

- Over 18 high level institutional and administrative reform activities were included in the final version of the TIRSP work plan.
- Agreement was reached on the establishment of a series of 3 joint training programs with USDA focusing on inspection, border inspection, and risk assessment and management. The first training will have over 100 attendees with representatives from GOAJ, industry, the Consumers Union, NGOs, and academic



TIRSP Short-term SPS specialist Dr. Tom Deeb (center) makes final notes on his presentation, while U.S. Ambassador Anne Derse and Ukrainian Ambassador Stepan Vo kovetsky confer in the foreground at the Consumer Rights Bureau Conference in Baku in March. Photo credit: Sabuhi Hasanov, TIRSP, 2008.

institutions.

- The TIRSP SPS 2008 work plan was reviewed with each affected ministry and assurances and buy-in was obtained to support the programs.
- The program was also reviewed with key donors including the World Bank, FAO, GTZ, BP Enterprise Center and DTRA. Several areas were identified for potential cooperation and mutual support.
- Meetings were held with key industry leaders including Coca Cola, McDonalds, and Citimart to discuss areas of potential collaboration and support to help improve exports, competitiveness, and build public-private partnerships.

TIRSP provided financial support to a high-level GOAJ conference on consumer rights in Azerbaijan on March 19th. Dr. Deeb presented on the WTO/CODEX – Role of Consumers. Attendees included GOAJ officials, the U.S. Ambassador (whose public comments at the conference reinforced TIRSP's own comments), the Ukrainian Ambassador to Azerbaijan, the Belorussian Ambassador to Azerbaijan, and many others.

Dr. Deeb also concluded that awareness of Azerbaijan's performance relative to international norms in the area of SPS appears to be lacking. This lack of awareness may impact on TIRSP's ability to move forward with key activities such as the joining of Codex Alimentarius Commission, the formation of a National Codex Committee, and improving the food safety and veterinary laws.

Expected outputs/activities next quarter:

- The first joint training co-sponsored by TIRSP and USDA will commence on April 28th focusing on inspection training. Sessions will be held in Baku and Ganja running over a two week period.
- TIRSP will work with USAID and the World Bank to increase awareness with senior government officials as to Azerbaijan's performance relative to SPS norms. Plans will be made for:
 - a workshop for the ministries and donors to review TIRSP findings and incorporate upgrades into the overall materials;
 - a workshop for the Cabinet of Ministers to review the performance of Azerbaijan relative to international SPS norms and the impact the performance will have on WTO accession.
- Continued work on CODEX
- Monitor and coordinate with EU, GTZ, DTRA, World Bank, and JICA
- Coordination with incoming USAID Private Sector Competitiveness Enhancement Program (PSCEP) implementer on food safety pilots

Utilities Sector Reform

The utilities sector reform team now resides in the offices of their GOAJ counterparts, in this case, the Tariff Council. In this quarter, TIRSP supported the renovation of Tariff Council offices for project staff use. At the end of the project, the renovated offices will be returned to the Tariff Council.

TIRSP continued to assess the regulatory, institutional, service, infrastructure, and other key elements in Azerbaijan's provision of electricity, gas, and water utility services. Since the subcomponent's strategy, as laid out in the Year One Work Plan, focuses on working with the Tariff Council, a key report submitted to USAID for review and approval was "Tariff Council Restructuring Report" on TIRSP's assessment of restructuring needs at the Tariff Council. This Report was supplemented by a utility sector strengthening synopsis intended to support a fundamental shift in policy respecting utility regulation and ownership.

At USAID Georgia's request, TIRSP specialists collected, compiled, and submitted to USAID/Georgia a report on Azerbaijan's 2008-2015 projected electricity and consumption report. In addition, USAID/Georgia requested information on:

- new generating facilities construction (when they plan to start and finish dates of new constructions; MW; Planned output in kWh)
- rehabilitation of existing power generating facilities (start and finish dates of rehab works; capacity gain in MW; gain in kWh); and
- Energy Policy or Energy Strategy of Azerbaijan.

This data is being used together with data from other countries in the region to develop a mid-term regional energy policy. Part of this process is to estimate energy generation and consumption needs over the mid-term. Also, in response to a request from USAID/Azerbaijan, TIRSP compiled and reported on the Fuel-Energy Balance for 2008.

In February, TIRSP specialists prepared for Deputy Minister Jabarov of MED two presentations on independent power producers. MED has retained independent consultants/consulting firms for each aspect of the IPP process. However, Deputy Minister Jabarov wanted a high level conceptual presentation that could be used to frame his analysis of the more detailed consultant presentations. Dr. Hasso Bhatia, long-term expatriate utilities expert, delivered this presentation. Then, in response to a follow-up request by Mr. Jabarov, Dr. Bhatia prepared a second more detailed presentation of the issues to be considered respecting a move to independent power production entitled "Relative Benefits of an Independent Power Producer (IPP) Over Native Generation". Both presentations were well received by the Deputy Minister.

TIRSP utilities specialists provided USAID with a water sector briefing paper. This was used, in part, to shape the water sector section of the TIRSP work plan. It reviewed the present structure and trends and provided recommendations as to the optimal structure. Recommendations covered ownership, management, operations, regulatory scheme and proposed implementation steps. The intent is to distribute the briefing paper to the Cabinet of Ministers for consideration but, as of the end of the quarter, it remained an internal document.

Reports/assessments/presentations completed:

- Tariff Council Restructuring Report
- Azerbaijan Fuel Energy Balance Projections 2008 to 2015
- Azerbaijan Fuel Energy Balance Report 2008

- Relative Benefits of an Independent Power Producer (IPP) over Native Generation
- Water Sector Reform Briefing Paper
- Moldova Study Tour Justification
- Basic Concepts and Terminology Presentation (Tariff Council)
- The Role of a Regulator
- How a Regulatory Body Works

In addition to formal presentations and papers, the TIRSP utilities team has continued to work on:

- Analysis of electric and gas sector issues on structure, organization, sector unbundling, and recent privatization/management contracting history, current status;
- Assessment of gas and electric tariff issues and options in tariff reform;
- Research in support of a new Energy or Regulatory Law;
- An outline of an energy sector unbundling plan;
- Consumer complaint and dispute resolution procedures, reviews of service quality standards, and identification of options and practical constraints; and
- Barriers to reform and enhanced private investments.

Training. After the assessment on Tariff Council restructuring needs had been completed, and TIRSP knew where to most strategically focus its efforts, TIRSP utility specialists conducted training seminars for Tariff Council members on “The Role of the Regulator” and “How a Regulatory Body Works.” There are only four TC employees who deal with utilities regulation and there is a high turnover rate. Consequently, what might normally be considered as introductory training sessions still served a useful purpose for TC staff dedicated to utilities oversight.

Trainings provided:

- The Role of the Regulator (to the Tariff Council)
- How a Regulatory Body Works (to the Tariff Council)
- Basic Definitions and Terminology Workshop (to the Tariff Council)

Preparation was also completed for a “System Planning” seminar slated for mid-April.

Other Assistance, Innovations, and Opportunities. In this quarter, TIRSP entered into discussions with the State Committee for the Management of State Property (SCSMP) on assessing where the project could best provide assistance. The SCSMP had drafted a memorandum of understanding which proposed a combination of training and consultation on privatization strategies in the utilities sector. Several meetings were planned and postponed between SCSMP, TIRSP and USAID. The allegiance could be strategic given the interest of USAID and TIRSP in supporting unbundling and privatization in the utilities sector. Although the SCSMP wanted assistance to commence in January 2008, TIRSP still wishes to pursue an alliance and provide targeted technical assistance. To this end, a meeting has been scheduled for April 18, 2008 between TIRSP, USAID and SCSMP to further explore possible collaboration.

In early February, Dr. Bhatia attended an Energy Roundtable sponsored by the SCSMP. The majority of attendees were managers of SOEs who reported on their activities and challenges. The SCMSMP representatives outlined their privatization mandate and program. No specific mention was made of the utility sector.

Also in February, USAID and United States Energy Association (USEA) co-sponsored a Black Sea Transmission Planning Workshop. In advance of this meeting, TIRSP specialists, CTO Paul Davis, Farid Bakhshiyev, Rajiv Rastogi (EGAT Europe and Eurasia Bureau, USAID) and USEA representatives met with MED Energy Advisor Karim Ramazanov and Deputy Minister Jabarov. This discussion centered on the goals of the workshop. Its purpose was to explore Azerbaijani interest in a regional power transaction and security compact. Azerbaijan is viewed as a critical player due to its energy supplies. The goal is to join the strategies of Georgia, Turkey, and Azerbaijan. TIRSP representatives attended the workshop.

TIRSP has been providing ad hoc technical assistance to the Tariff Council to facilitate their interaction with regional associations. Primarily this has been in support of information exchanges with the Energy Regulators Regional Association (ERRA). The Tariff Council also requested that long-term utilities specialist Mehman Rzayev accompany his GOAJ counterparts from the Tariff Council to the ERRA Regional Conference slated for April 21 to 24 in Budapest. However, Martina Schwartz, the Manager of International Programs at the National Association of Regulatory Utility Commissioners (NARUC), requested that USAID also be represented to facilitate the planning of a NARUC conference in June in Baku. Per USAID instructions, Dr. Bhatia was requested to accompany Mehman Rzayev and the TC delegation and to meet with NARUC representatives in Budapest respecting the planning of the Baku-based training scheduled for June 16 – 20.

Also in this quarter, TIRSP and USAID met several times with Karim Ramazanov, Energy Advisor to the MED. Mr. Ramazanov is well-versed in energy sector issues and has welcomed ongoing dialogue with TIRSP on a number of issues including regional energy policy, independent power production, pilot distribution programs and privatization strategies.

In February, the project presented to Deputy Minister Jabarov of the MED its goals and strategy for implementing utility sector reforms. In general, DM Jabarov is supportive of USAID initiatives but with the cautionary note that much of the policy dialogue falls outside of his authority and sphere of influence. Three areas appear to have generated interest and possible support: IPP, Tariff Council strengthening and pilot gas and electricity distribution programs.

Activities planned for next quarter:

- Attendance at the Regional ERRA Conference (April 21 – 24)
- Assistance with planning of the NARUC conference in Baku (June 16 – 20)
- Finalization of a gas distribution plan with Azerenergy
- Formalization of technical support for SCMSMP

- Assistance with revising the tariff setting methodology for gas and electricity at the Tariff Council
- Continued lobbying for adoption of the Tariff Council Restructuring Program
- Distribution of water sector reform plan
- Regular training sessions of TC and SCMSP staff
- IPP support on an as-needed basis

Demand-Driven Trade and Investment Activities

Economic Modeling and Monetary Policy Assessment

In mid-January, Dr. Juan Carlos Protasi arrived in Baku for a two week assessment. During this time he:

- Reviewed economic modeling efforts of the National Bank and various ministries with the objective of recommending strategies to harmonize the outputs of each modeling effort around the problem of the resource curse and its accompanying indicators and causes - explicitly deficit financing, over spending on capital construction, implications and responses to real appreciation, etc;
- Presented economic concepts, analysis, and recommendations related to assessing impact on macro-financial and competitiveness factors and strategies for addressing issues;
- Focused on data input relevant to the open-economy issues to be addressed, including fully explaining the conduit between the real and financial sector in Azerbaijan; and
- Engaged in policy dialogue from a competitiveness point of view and explored how to improve the competitiveness of the Azerbaijani economy based on open-economy issues.

Dr. Protasi, with assistance from TIRSP economist Fariz Ahmadov, produced a report entitled “Macroeconomic Policy and Modeling Efforts in Azerbaijan”. The report was reviewed by USAID which prompted requests for further elaboration on monetary policy issues. A revised draft was prepared by Dr. Stephen Lewarne and Dr. Protasi. This was again reviewed by USAID, which prompted a second round of requests for elaboration. Dr. Lewarne undertook to revise the report.

The final report submitted to USAID was reorganized to provide further emphasis on certain issues including the following changes.

- The revised report is organized around fiscal and monetary policy advice;
- The regression analysis is nested to illustrate the impact of fiscal spending;
- Greater emphasis is placed on monetary policy, the NBA’s role and the impact of other reforms (especially trade and openness reforms) which when analyzed in conjunction with monetary policy (such as fixing the exchange rate) make it clear the imperative of reforms to benefit monetary policy directly, rather than tangentially;

- New discussion is added on the basket of currency targets, the balancing of Euro and dollar targets, and the choosing of relative weights to combat the capital inflows impact on real appreciation;
- The modeling discussion is revised to soften the assessment of the MOED and recognize that they are key part of the process, especially since they have to perform the cost-benefit and rate of return analysis to tame the fiscal spending;
- Several aspects of the paper are re-ordered and greater emphasis is placed on monetary programming.

The work of Dr. Protasi was more in line with the mandate of the Financial Sector Strengthening Program (FSSP). While further technical assistance is expected and warranted, additional trips by Dr. Protasi will be funded under the FSSP program.

Expected outputs next quarter:

- No further activity is contemplated.

Tax Revenue Estimates

In addition to the tax policy, legislative amendments and administrative streamlining mentioned in the Investor Protection, Promotion and Institutional Governance sub-component, officials of the Ministry of Taxes indicated the need to estimate the revenue impact of proposed tax reform measures. Particularly, the Advisor to the Minister of Taxes requested modeling assistance. US Treasury has provided interim modeling support. But TIRSP has budgeted to provide complementary support to the U.S. Treasury economic modeling efforts. With the adoption of the May 15, 2008 deadline for submission of tax reform measures to the Majilis, the tax policy work completed by TIRSP must be supplemented by associated revenue impact analysis. As stated previously, Tax Policy Advisor Rup Khadka and Tax Legislative Expert Marlene Laro combined efforts to produce recommended Tax Code changes, the first draft of which was completed at the end of this quarter. TIRSP identified Selcuk Caner as an econometrician who will assist the project and the Ministry of Taxes in preparing estimates of revenue impacts for proposals scheduled to be submitted in the spring session. In addition, Prof. Caner will work on revisions to the partial equilibrium model to estimate impacts associated with WTO accession.

Expected outputs next quarter:

- Revenue impact assessments of proposed tax amendments (April 2008);
- Revisions to the partial equilibrium model and training of Ministry staff on the model.

Additional Institutional Strengthening Activities

To further leverage limited resources and maximize impact in the area of institutional reforms, TIRSP submitted proposals to the World Learning Focus on Results: Enhancing Capacity Across Sectors in Transition Countries (FORECAST) program to support five project initiatives. These initiatives cover 1) building non-governmental organizations'

capacity to support litigation of Competition Law violations, 2) supporting the MED's Corporate Governance Division in developing and promoting corporate governance best practices, 3) developing a mediation association, 4) educating mediators, and 5) supporting WTO public awareness campaigns. TIRSP also established a dialogue with USAID's Parliamentary Development Program to support joint efforts targeting MP education and legislative drafting support.

Telecommunications Assessment.

To support business environment activities, in general, and Azerbaijan's compliance with the WTO Telecom Agreement, in particular, TIRSP identified a short-term telecommunications specialist who will travel to Baku in April and May to undertake an assessment of the country's telecommunications sector. The assessment will contribute toward promoting competitive and non-distorting practices in the telecommunications sector and Azerbaijan's compliance with the WTO Telecom Agreement.

Cooperative and Municipal Bank Finance Assistance.

TIRSP also recruited a short-term cooperative and municipal bank finance specialist to collaborate with the ACDI/VOCA-implemented SME Support through Financial Sector Development Project. In particular, he is to assess the current status and future viability of the credit union sector in Azerbaijan. His review will entail an examination of the law, the regulatory stance of the National Bank, snapshots of existing credit union practices and breadth of coverage of alternative rural financing mechanisms. The consultant's assignment and report will be finalized in April. TIRSP does not anticipate undertaking follow-on activities.

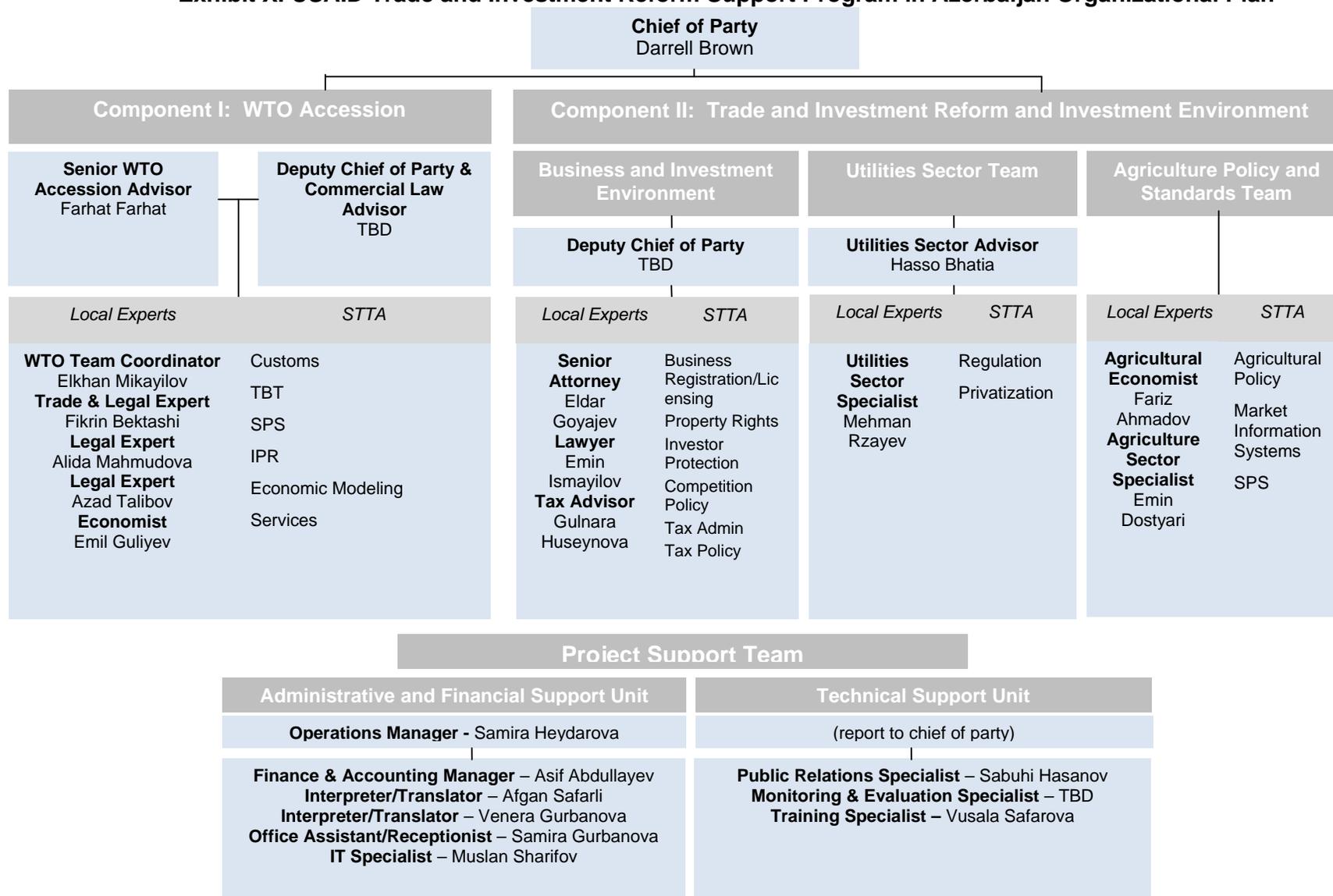
STAFFING

Annex A shows the staffing chart as of the end of this quarter. The staff number has grown to 27 with two long-term expatriate advisors and one half-time expatriate. While Chief of Party Darrell Brown has overall responsibility for the project's functioning, his technical focus is on business environment initiatives. Dr. Hasso Bhatia continues to work on utility sector technical assistance. Although scheduled to be deployed roughly 50 percent of the time, Farhat Farhat plays a critical role in monitoring and implementing the Component One WTO activities. The expatriates are buttressed by an impressive pool of local consultants who bridge the gaps in expatriate coverage. Over the second quarter, five short-term expatriate consultants were deployed (excluding three visits from permanent short term technical provider, Farhat Farhat).

As the project progresses, we anticipate launching another component of the project proposal, the internship program. TIRSP hopes to retain five interns to assist in various substantive and support roles, including legal and translation services. More tasks will also be delegated to local technical staff in recognition that the budget will not support a continued STTA deployment at the rates incurred at the beginning of the project.

ANNEX A. AZERBAIJAN TIRSP ORGANIZATIONAL PLAN

Exhibit X. USAID Trade and Investment Reform Support Program in Azerbaijan Organizational Plan



ANNEX B. DRAFT LEGISLATION SENT TO WTO SECRETARIAT

Legislative Tracking Chart
As of March 31, 2008

At President's Office:

Draft Legislation	Legislative Process	Project Review/Issues	English Version
1. Draft Amendments to the Law "On Copyright and Related Rights" No. 115-IQ, dated July 5, 1996	Adopted	Draft has been reviewed by Project. It introduces significant improvements. Few issues remain to be addressed to bring it into full conformity with TRIPS. President Office Legal Dept agreed to incorporate most proposals except those dealing with enforcement. The Legal Department agreed to include such provisions in criminal code (Set II reform)	Yes. Integrated in track changes into original Law.
2. Draft Amendments to the Law "On Normative Legal Acts" No. 761-IQ, dated November 26, 1999	Adopted	Draft has been reviewed by Project. No issues.	Yes. Integrated in track changes into original Law.
3. Draft Amendments to the Law "On Currency Settlement" N. 910 dated 21 October 1994	Adopted	Draft has been reviewed by Project. No issues.	Yes. Integrated in track changes into original Law.
4. Draft 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	Adopted	Draft received by Project on October 17 and reviewed by project. There is not anything WTO related in the draft. The only issue in Tax code is equalizing excise taxes and it is still under discussion within the ministries.	Yes
5. Draft Amendments to Law of the Republic of Azerbaijan "On State Duty " No. 223-IIQ, dated	Adopted	Draft has been reviewed by Project. It equalizes duties for IP services and solves National Treatment Problem. But, there are	Yes

Draft Legislation	Legislative Process	Project Review/Issues	English Version
December 4, 2001		some minor MFN Treatment problems remaining unresolved. There is also issue in reducing licensing fees from approximately 5000 Manats to 200 Manats for all activities. But, this proposal has been recently rejected by Parliament. So, there is intention to reduce it to 200 Manats for only activity license fees for import of alcohol and tobacco and it will be done through amendments to res. No 782	
6. Draft Amendments to President Decree 619 of December 26, 2001	Adopted	No issue. To implement changes to Law on Currency Regulations related to fees on cash taken out of Azerbaijan..	Yes. Integrated in track changes into original Decree

At Cabinet of Ministers:

Draft Legislation	Legislative Process	Project Review/Issues	English Version
7. Draft Customs Code	Draft has been circulated to relevant state bodies by Cabinet of Ministers and all ministries have given their comments	Valuation, origin, IP border enforcement, and other relevant provisions (confidentiality, access to court, transparency, and payments) have been reviewed by Project and comments especially on Annex 2 of the Code on valuation have been given to Customs Committee. All comments on valuation parts have been taken	Yes, but WTO relevant parts

Draft Legislation	Legislative Process	Project Review/Issues	English Version
		into account and new version of those parts have been sent to the Cabinet of Ministries.	
8. Draft Amendments to the Law of the Republic of Azerbaijan “On Patent” No.312-IQ dated July 25, 1997	Draft at Cabinet of Ministers. Draft is ready to be sent to the President’s Office	Draft has been reviewed by Project. It introduces significant improvements. Few issues remain to be addressed to bring it into full conformity with TRIPS. Proposals have been discussed with Cabinet of Ministries and Patent Office and major proposals have been taken into account. Patent Office has prepared new version of draft amendments and sent it to again Cabinet of Ministries	Yes. Integrated in track changes into original Law.
9. Draft Amendments to the Law of the Republic of Azerbaijan “On Trademarks and Geographical Indications” No. 504-IQ, dated June 12, 1998	At President’s Office	Draft has been reviewed by Project. It introduces significant improvements. Few issues remain to be addressed to bring it into full conformity with TRIPS. Proposals being discussed at Patent Office.	Yes. Integrated in track changes into original Law
10. Draft Law “On Securing Intellectual Property Rights and Combating Piracy	At Cabinet of Ministries. Draft has been agreed among relevant ministries.	Project reviewed this Draft. It is largely a good Draft. Additional suggestions for improvement have been provided. The draft is in Cabinet of Ministers and comments on draft from all Ministries have been collected and now are being integrated at Cabinet level. Project is in regular	Yes

Draft Legislation	Legislative Process	Project Review/Issues	English Version
		touch with Cabinet to keep draft's compliance with WTO requirements.	
11. Draft Law "On Protection of Rights of Broadcasting Organizations in Digital Network"	At Cabinet of Ministries. Comments from relevant ministries are being incorporated into the Draft.	Draft has been reviewed. No issues.	Yes
12. Draft Law "On Technical Regulation" (new)	Draft at Cabinet of Ministries	This initiative in and of itself is a major improvement over the current regime. SMPA accepted all comments provided by the Project. Draft is being circulated for consent to relevant ministries. It was submitted to Cabinet of Ministers on Monday.	Yes.
13. Draft Amendments to the Law of the Republic of Azerbaijan "On Sanitary and Epidemiologic Welfare" No.371 dated November 10, 1992	Draft at Cabinet of Ministers	Draft was reviewed by Project. Project comments were discussed with MOH and reflected in current Draft. Draft submitted to the Cabinet of Ministers.	Yes. Integrated in track changes into original Law.
14. Draft Cabinet of Ministers Resolution "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"	Adopted.	Draft and adopted Cabinet Resolution were reviewed. No issues.	Yes

Draft Legislation	Legislative Process	Project Review/Issues	English Version
15. Draft Cabinet of Ministers Resolution “On Declaration of Works to be Fallen Into Public Domain	Draft at Cabinet of Ministers.	Draft has been reviewed. No issues	Yes
16. Draft Cabinet of Ministers Resolution “On Minimum Tariffs for Use of Subject Matters of Related Rights”	Draft at Cabinet of Ministers.	Draft has been reviewed. No issues	Yes
17. Draft Amendments to Cabinet of Ministers Resolution “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	Adopted .	Draft has been reviewed by Project. Ad valorem fees have been eliminated to comply with GATT Article VIII and were replaced with new fixed fees, which appear to be reasonable. ²	Yes. Integrated in track changes into original Resolution.
18. Draft Amendments to Cabinet of Ministers Resolution “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	Adopted	Draft has been reviewed by the project. Amendments provide marginal improvements. Nonetheless, this Resolution will have to be revised to be compatible with the anticipated “Draft Customs Code”	Yes. Integrated in track changes into original Resolution
19. Draft Amendments to Cabinet of Ministers Resolution “On Approval of the Rules of	Adopted	Draft has been reviewed by the Project. Amendments provide marginal improvements. Nonetheless,	Yes. Integrated in track changes into original

² At some point, WTO Members may request justification for new rates. Cost accounting model is needed to support new rates.

Draft Legislation	Legislative Process	Project Review/Issues	English Version
Determination of Origin of Goods” No. 202 dated November 2, 2000		this Resolution will have to be revised to be compatible with the anticipated “Draft Customs Code”	Resolution
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	Adopted	Draft has been reviewed. No issues	Yes. Integrated in track changes into original Resolution

At Ministerial Level:

Draft Legislation	Legislative Process	Project Review/Issues	English Version
21. Draft Amendments to Decree of the President “On Further Liberalization of Foreign Trade in the Republic of Azerbaijan” No.609 dated June 24, 1997	At Cabinet of Ministries	Draft has been reviewed by the Project. Draft introduces significant improvements. MOJ and MOF provided positive opinion. Draft was sent to MinFin for another round of review. Draft expected to be sent to Cabinet next week.	Yes. Integrated in track changes into original Decree
22. 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	At Cabinet of Ministries	Draft has been reviewed by the Project. Draft introduces significant improvements. MOJ and MOF provided positive opinion. Draft was sent to MinFin for another round of review. Draft expected to be sent to Cabinet next week.	Yes. Integrated in track changes into original Decree

Draft Legislation	Legislative Process	Project Review/Issues	English Version
23. Draft Amendments to the Law of the Republic of Azerbaijan “On Viticulture and Wine-Making” No. 208-IIQ dated October 19, 2001	Draft sent to Cabinet and returned to the Ministry of Agriculture for including amendments to eliminate quota authority.	Draft does not eliminate quota provision. President Office Legal Department agreed to eliminate quota provisions once it receives the Draft. Project is assisting the Ministry to prepare a new draft with distribution to COM in early April.	Yes
24. Draft Amendments to the Law of the Republic of Azerbaijan “On Tobacco and Tobacco Products” No. 138-IIQ dated June 8, 2001	Draft sent to Cabinet and returned to the Ministry of Agriculture for including amendments to eliminate quota authority and TRIMS.	Draft does not eliminate quota provision and TRIMS. President Office Legal Department agreed to eliminate TRIMS and quota provisions once it receives the Draft. Project is assisting Ministry to prepare new draft with new draft submission to COM in early April.	Yes
25. Draft Amendments Law of the Republic of Azerbaijan “On Customs Tariff” No.1064, dated June 20, 1995	At Cabinet of Ministries	Agree.	

SPS LAWS:

Draft Legislation	Legislative Process	Project Review/Issues	English Version
26. Draft Food Law (new) or Amendments to the Law “On Food Products” No.759-IQ dated November 18, 1999	At Cabinet of Ministries	Current law has been analyzed by the Project. Recommendations to amend the Law will be provided in early April.	
27. Draft Amendments to the Law	No Draft exists.	Current law in being analyzed by the	

Draft Legislation	Legislative Process	Project Review/Issues	English Version
“On Phytosanitary Control” dated 12 May 2006		Project. Recommendations to amend the Law will be provided next week.	

ANNEX C. USAID SUCCESS STORY



USAID
FROM THE AMERICAN PEOPLE

**TRADE AND INVESTMENT REFORM
SUPPORT PROGRAM IN AZERBAIJAN**

SUCCESS STORY

Jump-Starting Azerbaijan's Stalled WTO Drive

USAID assistance helped convince the WTO Working Party to reconvene and consider Azerbaijan's accession bid.

Two years after the World Trade Organization (WTO) last convened a Working Party meeting on Azerbaijan's membership, the Government of Azerbaijan (GOAJ) has implemented major reforms to bring its foreign trade regime into conformity with WTO agreements. The resulting May 6, 2008 Working Party meeting is a milestone event in Azerbaijan's WTO membership progress.



**WORLD TRADE
ORGANIZATION**

USAID has been helping draft WTO-compliant laws and build the capacity of the Government of Azerbaijan to implement reform. These have convinced the WTO Working Party to re-convene after more than two years. WTO accession will lead to greater export and investment in Azerbaijan, create new jobs, increase real income, and reduce endemic poverty.

Over the past seven months, with assistance from the USAID Trade and Investment Reform Support Program in Azerbaijan (TIRSP), the GOAJ prepared formal answers to Working Party member questions, revised Azerbaijan's offers on goods and services, and adopted a new WTO-accepted format and nomenclature for the offers. USAID TIRSP also helped the GOAJ prepare more than 30 WTO-compliant laws, particularly those related to customs, intellectual property, foreign trade policy, food safety, and non-tariff barriers to trade. The GOAJ has long recognized the benefits of economic integration and, more recently, the need to accelerate its WTO accession. In addition to fulfilling WTO requirements, these laws, once adopted, will strengthen the rule of law and a transparent, non-discriminatory, cost-efficient, and stable business environment. This will decrease producers' costs, increase efficiency, and reduce opportunities for rent-seeking behavior. As a WTO member, Azerbaijan will be a better place to do business.

USAID TIRSP will continue to help the GOAJ build its capacity and fulfill requirements for the next round of negotiations and Azerbaijan's WTO accession. With the re-convening of the Working Party, the GOAJ has demonstrated its commitment to seeing these efforts through.

U.S. Agency for International Development
www.usaid.gov

ANNEX D. USAID NEWS STORY – CONSUMER RIGHTS

USAID NEWS STORY

TITLE: US Government Encourages the Protection of Consumer Rights in Azerbaijan

CAPTION: *Ambassadors of Ukraine and U.S. to Azerbaijan discuss a consumer policy.*

Photo Credit: USAID TIRSP

USAID Trade and Investment Reform Support Program (TIRSP) and GTZ jointly held the “Protection of Consumer Rights: Realities, Perspectives” Conference on March 18, 2008. There were over 150 attendees from state bodies, local and international non-governmental organizations, diplomatic missions and private enterprises.

The Minister for Economic Development, Heydar Babayev, opened the Conference. He emphasized identifying consumer rights infractions and seeking solutions, referring to the Law on the Protection of Consumers’ Rights (1995), which was adopted based on the UN consumer rights principles.



The United States Ambassador to Azerbaijan, Anne Darse, highlighted the importance of consumer rights protection in light of Azerbaijan’s intention to accede the World Trade Organization. She also noted USAID’s support in helping Azerbaijan meet this objective. In order to ensure the protection of consumers’ right, the Government must coordinate its work with producers and consumers. But Ms. Darse noted, “The actions taken should not artificially limit the growth of trade or lead to the growth of prices.”

Thomas Deeb, representing USAID TIRSP, summarized the WTO/Codex Role of Consumers emphasizing the importance of the partnership between government, industry and consumer organizations in support of sanitary and phytosanitary measures (SPS). He also relayed US experience in consumer advocacy speaking, in particular, about the Voice of Consumers activities.

The Deputy Minister of Agriculture, Ilham Guliyev, spoke about a task force under the Ministry of Agriculture which conducts market monitoring of foodstuffs.

The Chairman of State Agency on Standardization, Metrology and Patent, Arif Ashrafov, mentioned the need to coordinate activities when dealing with consumer rights’ protections. “Another serious problem is the [need for] improvement of legislation in the given area and increasing the penalty rates charged for irregularities both by producers and traders”, he opined.

This view was supported by Ziyad Samadzade, the Head of Parliamentary Commission on Economic Policy. He supports the creation of a separate body which would regulate consumer markets. “Besides, I think it is necessary to improve the system of training personnel in this area”, he mentioned.

Eyyub Huseynov, the Chairman of the Association for Protection of Consumers’ Rights, stated that a consumer policy has not yet been formed in Azerbaijan. “We mostly receive complaints about utility sector services. The worst thing is that there is no practice for concluding agreements between the client and the utility companies. This makes it difficult to protect the right of a consumer when it is violated”, he explained.

Overall, the Conference was a success in that it highlighted both the current state of consumer rights and charted a reform path that could lead to greater protections of such rights.

ANNEX E. LEVEL OF EFFORT SUMMARY (Q2, 2008)

Name:	Description:	Company	Total Approved LOE:	LOE Used to Date:	LOE Used Jan-Mar:	Total LOE Remaining:
Brown, Darrell	Commercial Lawyer	Chemonics	27	24	0	3
Burcroff, Richard	Senior Agricultural policy Specialist	Chemonics	30	28	0	2
Caner, Selcuk	Econometrician and Tax Expert	AECOM	32	0	0	32
Deeb, Thomas	(SPS) Specialist	AECOM	60	60	20	0
DeGrande, Dustin	Chemonics Home Office Manager – Start-Up Specialist	Chemonics	13	13	0	0
Dimitroff, Thomas	Investment Attorney	EIF	4	4	4	0
Farhat, Farhat Youwakim	Senior WTO Accession Advisor	EIF	182	87.32	29.75	94.68
Fitzpatrick, Dan	Collateral Law and Privatization Specialist	Chemonics	46	43.5	18	2.5
Hjort, Kim	SPS and TBT Specialist	EIF	72	70	20	2
Hoffman, Tom	SPS/Food Safety Specialist	AECOM	19	19	0	0
Irvin, Benjamin	Trade Remedies Specialist	EIF	86	70	24	16
Khadka, Rup	Tax Policy and Administration Expert	AECOM	59	41	3	18
Laro, Marlene	Tax Lawyer	AECOM	12	5	5	7
Lewarne, Steven	Macroeconomist and Work Plan Advisor	AECOM	9	8	0	1
Maier, Polly	IPR Specialist	EIF	38	28.5	7.75	9.5
Millan, Hector	WTO Advisor & Tariff Negotiations Specialist	Chemonics	30	30	0	0
Moissejev, Andrey	Modeling and Trade Information Expert	AECOM	79	79	3	0
O'Shea, Brian	Customs Specialist	EIF	40	32	6	8
Protasi, Juan Carlos	Industrial Zone Expert	AECOM	18	18	18	0
Sahaydachny, Simeon	Procurement Specialist	EIF	66	38	2	28
Schanck, Jeremy	Chemonics Home Office Director - Workplanning	Chemonics	14	14	0	0
Schiffman, Steve	IPR Specialist	EIF	33	31	0	2
Snelbecker, David	Trade Policy Reform Expert	AECOM	9	9	0	0
Vogel, Robert	Cooperative and Municipal Bank Finance Specialist	AECOM	18	0	0	18
Wright, Geoff	Trade, Int'l Transaction, and Competition Policy Specialist	AECOM	23	23	23	0
Zaldastanishvili, Diana	Project Management Specialist	Chemonics	20	20	0	0
TOTAL			1039	795.32	183.5	243.68

ANNEX F. TIRSP DELIVERABLES SUMMARY (Q2, 2008)

Azerbaijan TIRSP Project Deliverables

01. Azerbaijan TIRSP Q4 2007 and Q1 2008 Quarterly Report

Azerbaijan TIRSP Year One Work Plan (final iterations)

Azerbaijan TIRSP Consultant Deliverables

Model SPS principles law "Draft of the Proposed law of the Republic of Azerbaijan 'On Normative-Legal Acts to Ensure Food Safety and Protect Animal and Plant Health from Diseases and Pests'"

"Assessment of the Law 'On Veterinary Medicine' of the Republic of Azerbaijan re compliance with the WTO SPS Agreement"

"Assessment of the Law 'On Foodstuffs' of the Republic of Azerbaijan re compliance with the WTO SPS Agreement"

"Assessment of the Law 'On Phytosanitary Control' of the Republic of Azerbaijan re compliance with the WTO SPS Agreement"

ACC8 TBT "Checklist of Illustrative TBT Issues for Consideration in Accessions"

The Agreement on Sanitary & Phytosanitary (SPS) Measures: Basic concepts and member responsibilities (PowerPoint)

Agricultural Subsidies and Notifications: Requirements for acceding countries (PowerPoint)

The WTO Agreement on Technical Barriers to Trade: Basic Concepts and Member Obligations

"Assessment of the amended Law 'On Sanitary-Epidemiological Healthiness' of the Republic of Azerbaijan re compliance with the WTO SPS Agreement"

Policies and Strategies for Azerbaijan Agriculture

"Assessment of the draft Law 'On Technical Regulation' of the Republic of Azerbaijan re compliance with the WTO TBT Agreement"

Macroeconomic Policy and Modeling Efforts in Azerbaijan

WTO Institutional Needs Assessment for Azerbaijan

Review of the Draft Law of the Azerbaijan Republic on Investment Activities

Appendix A: Tabular Assessment with Draft Text, Recommended Edits, and Comments

Comments on Cadastre Law

Initial Comments on the Draft Competition Code; Draft Competition Code with tracked changes

Consumer Rights Conference Presentation "WTO/Codex Role of Consumers" (PowerPoint)

"SPS Interim Report"

"Status of TIRSP SPS Activities as of March 2008"
