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



QUARTERLY REPORT

OCTOBER 01 – DECEMBER 31, 2009 (Q1, 2010)

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**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.

Cover Photo:

Students at Azerbaijan State Economic University during a guest lecture on WTO accession

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Background

The USAID Trade and Investment Reform Support Program (TIRSP) is encouraging economic growth through increased trade and investment in multiple non-oil sectors by helping Azerbaijan in its efforts to accede to the World Trade Organization (WTO) and supporting business climate reform. The TIRSP project began in August 2007 under a two year contract, and was subsequently extended to run through September 2010.

Oil exports have contributed to high rates of economic growth in Azerbaijan in recent years, but foreign investment in non-energy sectors and increased international trade are critical to the country's economic stability. As trade between former Soviet republics declines, Azerbaijan seeks to strengthen other trade and business relationships. This has made accession to the World Trade Organization (WTO) and improving the business climate key priorities for the Government of Azerbaijan (GOAJ).

With support from TIRSP, the WTO Working Party considering Azerbaijan's accession reconvened in May 2008, December 2008 and July 2009, following over two years of stalled negotiations. These milestones in the Azerbaijan accession process are record-breaking as countries normally get on average one working party per year. The progress made since the launching of TIRSP was the result of close collaboration between the GOAJ and TIRSP in (i) preparing WTO-compliant laws in customs, intellectual property, foreign trade policy, food safety, and non-tariff barriers to trade; (ii) preparing high-quality accession documents that formed the basis for developing the Factual Summary; and (iii) improving the structure and format of goods market access offer in 2008. TIRSP is supporting Azerbaijan in legislative and institutional reforms to help continue Azerbaijan's progress towards WTO accession, which included conducting bilateral negotiations with ten nations in 2008 and seven nations in 2009.

During this reporting Period, TIRSP continued providing legal support toward finalizing several draft laws related to TBT, SPS, and Intellectual Property. In addition, TIRSP worked closely with the GOAJ to assist in understanding trends and typical commitments made by WTO Members and other acceding countries in order to build confidence for improving market access offers on goods and services. As a result, the GOAJ has revised its service offer taking into account many of TIRSP's suggestions and is currently working on improvements to its goods offer. TIRSP has also been providing significant support in researching and guiding the preparation of replies to questions submitted to GOAJ by the EU and US negotiators.

TIRSP business climate reform initiatives focus on investor protection, legal reform, and utility sector reforms. During the first project year, with TIRSP assistance, the GOAJ considered legislation to reform the competition code, bankruptcy and business closure laws, cadastral and collateral laws, state-owned enterprise law, and public procurement law. TIRSP also provided support to the GOAJ in reforming the regulatory, institutional, service, infrastructure, and other key elements in Azerbaijan's provision of electricity, gas, and water utility services in 2008.

During its second year, TIRSP provided ongoing support for reforms in key legal areas to improve the business enabling environment. In 2009, for example, TIRSP continued a comprehensive pilot program dedicated to reforming the property tax system to support the long-term sustainability of the real estate market. TIRSP also provides technical assistance to support the development of capital and securities markets in Azerbaijan. Specifically, TIRSP has worked closely with the State Committee on Securities to build institutional capacity as well as to reform laws and regulations relevant to the development of capital markets.

By helping Azerbaijan accede to the WTO and supporting business climate reforms, TIRSP is encouraging economic growth by promoting harmonization of the Azerbaijani trade regime with international standards and best practices, reducing administrative and legal barriers to conducting business, and improving practices and regulatory oversight in key utilities services. In its third year, TIRSP continues to provide related technical assistance and advice to the Government of Azerbaijan and key stakeholders.

Component One – World Trade Organization Accession

The Accession Process

Replies to Questions:

During the first quarter of project year 2010, TIRSP provided technical assistance in support of Azerbaijan's bid for WTO accession. As part of this ongoing assistance, TIRSP staff and expert advisors continued working with the GOAJ to prepare responses to WTO Working Party questions before the body's next meeting. TIRSP staff assisted in preparing replies to questions from the European Union (EU) regarding progress toward accession that were filed following the meeting of the Working Party held in July. This assistance has entailed TIRSP staff members working closely with several ministries and state bodies, including the Ministry of Taxation, the Anti-Monopoly Department, and the Tariff Council. TIRSP also initiated research to assist in replies to questions from the United States that were sent by the Ministry of Economic Development (MOED) to relevant ministries and state bodies during this period. All ministries except the Ministry of Energy and Industry (MOEI) have provided their replies to EU questions. Replies to US questions were being developed toward the end of December with three ministries submitting draft replies to the MOED. TIRSP will continue assisting the MED in January 2010 to analyze and finalize replies.

A TIRSP expert worked closely with service negotiators/officials at the MED and the Ministry of Foreign Affairs (MFA) to review the revised service offer and enhance understanding of various horizontal and sector-specific commitments. The consultant will also provide clarifications to enquiries regarding specific services. In addition, the TIRSP consultant pointed out potential unavoidable commitments that WTO Working Party Members may likely insist on and commitments that are typical almost in every accession. Experience of other relevant and CIS countries as well as international trends and best practices related to services was shared by the consultant.

TIRSP prepared and provided to GOAJ five notes on services covering general services issues, energy, telecommunications, financial (banking and insurance) and transport with the aim of providing guidance for improving the GOAJ services offer.

TIRSP staff and advisors held several meetings with key ministries, including the MOED, the MFA, the MIE, the Ministry of Finance (MoF), the Ministry of Communications and Information Technologies (MCIT), and the National Bank of Azerbaijan to discuss policy papers on trade in services ("the services papers") and promote improvements to Azerbaijan's offer on services.

In addition, TIRSP held several events to promote understanding WTO service commitments, international trends in service liberalization, and the benefits of liberalization. These included:

- a roundtable targeting officials from key ministries/state bodies to discuss the importance and benefits of service sector liberalization;
- a workshop for officials at MOED and MFA engaged in service negotiations to clearly understand procedures and formalities connected with service negotiations;

- a seminar targeting public and private sector representatives and media representatives to build a better understanding of GATS and related service commitments through sharing international trends and the experiences of relevant recently acceding countries, focusing on the importance and benefits of trade liberalization for services;
- a seminar on services at a local university to educate about the WTO in general and the GATS agreement and service commitments in particular and
- a roundtable at the Milli Mejlis (Parliament) targeting members of parliament and staffers to increase understanding of GATS, likely service commitments and related legal reform necessary to comply with potential commitments.

As a result of TIRSP's effort during this quarter, Azeri authorities provided a draft of a revised services offer that reflected a number of improvements, many of which were based on recommendations provided by TIRSP staff and advisors. Upon approval of this draft or a version amended by the Inter-Ministerial Commission, it will be submitted to the WTO Secretariat in Geneva in January or February 2010.

Offer on Goods:

In an effort to assist the GOAJ in making informed decisions toward improving its goods offer, TIRSP staff and experts researched and compiled comparative information on applied and bound rates of duties, focusing on select countries as well as on peak product tariffs. TIRSP staff and experts assisted in analyzing Azerbaijan's import and export data to assess potential post-accession trade flow and evaluate the impact of the government-proposed list of sensitive goods. Taking into account the results of this research, TIRSP experts developed a policy paper outlining international trends of tariff liberalization (bound and applied), drawing on the experience of WTO Members and recently acceding countries (particularly FSU/EE) and focusing on the importance and benefits of tariff liberalization.

TIRSP held a roundtable to exchange views on tariff policies and their impact with the aim of building confidence toward improving Azerbaijan's WTO market access offer on goods. Representatives from the MOED, the Ministry of Agriculture (MOA), the State Customs Committee, and the MOIE participated actively. The roundtable resulted in improved understanding of sensitive products. The assembled participants indicated by their questions that they were seeking to make improvements to the agricultural offer. Indications were also made toward the possibility of full acceptance of the Civil Aircraft Agreement. A number of other technical issues were discussed and apparently accepted: other duties and charges should not be introduced; *ad valorem* rates should replace specific rates in next offer; and phase-in periods only in cases where applied tariffs were being lowered.

TIRSP further held a roundtable in cooperation with Azerbaijan Marketing Association for private sector participants with the aim of building support to promote an improved market access offer on goods. The MOED and representatives of one civil society organization participated. A briefing on status of accession and outstanding issues was provided. Discussion focused on the importance of transparency and rule of law under the WTO as ways to increase certainty in business environment; attract investment; and to curb corrupt, internal discriminatory and monopolistic practices. Private sector participants appeared willing to give up protected market positions in order to achieve an improved business environment.

Tariff Rate Quotas:

To promote better understanding Tariff Rate Quotas, TIRSP experts met several times with officials from the Economics Reforms and Research Institute and Economic Policy Analysis Unit in the MED to discuss:

- GOAJ research on tariff quotas and trade, clarifying various aspects of tariff quotas and what aspects of tariff quotas necessarily have to be addressed in such research.
- How and why tariff quotas were implemented in the past and what the current environment within the WTO implies for implementing a tariff quota. For example, one key aspect that needs careful consideration is how to handle preferential trade agreements when designing a tariff quota.
- Procedures for setting and administering tariff rates quotas.

TIRSP held a roundtable to discuss basic economic concepts connected with tariff rate quotas as well as current trends within the WTO. Discussion centered on the pluses and minuses of various procedures for administering tariff rate quotas.

Last, TIRSP prepared a paper and provided to MED, MOA, and the Economics Reform and Research Institute on the procedures for setting and administering Tariff Rate Quotas.

Legal Reform

. TIRSP continued monitoring the legislative process, particularly all draft laws and other legal acts under the Presidential Legislative Action Plan, while promoting the adoption of the second legislative action plan. Specific legal reform activities included the following:

Law on Technical Regulations and Conformity Assessment

TIRSP worked closely with the President Office and the Standards Committee to incorporate TIRSP-suggested revisions to the new draft law on technical regulations and conformity assessment for bringing the draft into full conformity with relevant WTO requirements. A draft was finalized by the end of this quarter.

Sanitary Law

The Cabinet of Ministers' International Department (CabMin/Intl Dept), which is in charge of administering the implementation of President Legislative Action Plan), intervened in early December, per advice of TIRSP, to break the unduly prolonged review cycle of draft legislation at the ministerial level. The first target was the Draft Amendments to the Sanitary Law where a first joint meeting of all concerned ministries (MED, Sanitary Service, Veterinary Service and the Customs) was held at the Ministry of Justice with the participation of representatives of CabMin/Intl Dept and TIRSP. Several meetings in December led to resolution of all issues connected with this Draft except for one: a non-WTO issue related to the authority of the Ministry of Health.

Food law

TIRSP worked with the Ministry of Health (MOH) to advance amendments to the draft food law. TIRSP assisted the MOH in evaluating several rounds of comments that were prepared by other ministries including the MOED and the Standards Committee. By the end of this quarter, TIRSP was working with the Cabinet of Ministers on evaluating the last set of comments provided by the MOED. The Cabinet of Ministers intends to follow the same approach as was employed regarding the Sanitary Law to resolve outstanding issues connected with the food law.

Intellectual property law

TIRSP held a series of meetings to support additional reform of intellectual property (IP) law to achieve full conformity with the WTO TRIPS Agreements. Project representatives met with Ministry of Justice (MOJ) officials to discuss required changes to the Copyright Law and the inclusion of such changes in the second legislative action plan. Moreover, TIRSP and the MOJ reached agreement on particular changes needed to ensure that the law complied with TRIPS and Berne Convention requirements in line with earlier TIRSP recommendations that have been incorporated. The December 2009 version of the Law of the Azerbaijan Republic “On Provision of Intellectual Property Rights and Fight Against Piracy” reflects improved TRIPS Agreement compliance on the following issues:

- Continued conversion of Chapter I and II from application to copyright enforcement to enforcement in all areas of intellectual property.
- New provision for TRIPS-based fair enforcement procedures, as requested by the EU.
- Improved TRIPS compliance on provisional measures.
- Addition of compensatory damages required by TRIPS.
- New protections for confidential information in discovery.

In December, TIRSP’s IP advisor and staff members held discussions with representatives from the World Intellectual Property Organization (WIPO), the Central, Eastern Europe and CIS Association (CEECA), the Copyright Agency of Azerbaijan, the Prosecutor’s Office, and the Ministry of Foreign Affairs on IP enforcement and IP-related issues in WTO accession. TIRSP’s IP advisor reviewed and drafted detailed comments on the latest version of the Draft Law on Securing Intellectual Property Rights and Combating Piracy. The December 2009 version of the law reflects improved TRIPS Agreement compliance, addressing five out of the ten remaining requirements to bring the Draft in line with the request made by Working Party Members.

TIRSP also met with Patent Office officials to discuss the status of patent law amendments, TRIPS requirements, and the need to resolve unique local challenges to legislative, implementation, and enforcement requirements. The Patent Office officials confirmed the adoption of several TIRSP-provided recommendations in significant areas of TRIPS compliance.

In response to a request from the Parliament, TIRSP combined two roundtables on IP and Services. The combined roundtable was held on December 11, 2009. Over a dozen members of Parliament (MP) and parliamentary staff members attended. During the course of the discussion, some of the MPs expressed frustration with certain policies and practices of the Government that have protectionist effects. The roundtable concluded with a request that TIRSP conduct similar roundtable sessions on a regular basis, addressing key aspects of WTO accession.

Other Legal Support during this quarter-

- TIRSP completed a review of the draft law on foreign trade regulations and suggested a new model law that would be in compliance with WTO requirements.
- TIRSP initiated analysis of the law on standardization to support proposed amendments to bring the law in line with the WTO TBT agreement.
- TIRSP prepared a commentary on the Emergency Ministry's opinion letter re amendments to Decrees 609 and 782.

Institutional Reform

TIRSP continued working to facilitate WTO-related institutional reform through promotion of Azerbaijan's joining of Codex Alimentarius, a collection of internationally recognized standards and related codes of practice for regulation of food quality, safety, and trade. A draft for establishing a Codex National Point¹ is currently at the Cabinet of Ministers and TIRSP is assisting the Standards Committee to develop a Codex Harmonization plan and procedures for notification. TIRSP's advisor and staff members met with representatives of the Ministry of Health and the State Committee on Standardization, Metrology and Patents to seek further input regarding the current status of notification points and to discuss preliminary proposals for making those points operational.

TIRSP staff also met with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) to discuss the legal framework for establishing a TBT Notification Point and initiated preparations for a combined roundtable on Codex harmonization plan and SPS/TBT notification points.

TIRSP's advisor and staff members completed a paper on a prioritized Codex Harmonization Plan and a paper on making SPS/TBT Notification Points operational. Both papers were presented in a roundtable including representatives from relevant ministries (e.g., MiOH, MOA, and MOED) as well as private sector representatives.

Component Two – Business Enabling Environment

Capital Markets

During this reporting period, TIRSP continued providing technical assistance to the State Committee on Securities (SCS). TIRSP staff and expert advisors provided an overview of what a five-year plan for securities regulatory reform should address to the Director of International Relations for the SCS. The Director stressed the SCS's ongoing need for personnel training and for TIRSP's continued advice regarding a plan for reform. Toward this end, the TIRSP closely collaborated with Natig Mustafayev, Head of the Market Regulation Division of the SCS, and held discussions with Emin Muradov, Leading Advisor to the SCS's Department of Licensing and

¹ In order for a country to become a Member of Codex Alimentarius, it must first designate a state body/Ministry to act as the National Codex Point. It is the entity that will be in charge of interfacing with, and participating in the work of, Codex on behalf of Azerbaijan.

Supervision, as well as Elnur Allahverdiyev, Head of the Department of Issuance and Registration of Securities to finalize a revised work plan for TIRSP's capital market activities. The finalized work plan was completed at the end of December, and should be agreed upon in mid-January 2010.

In December, TIRSP staff and advisor produced a "discussion draft" of a five-year securities market development plan. TIRSP staff drafted and submitted explanations of the draft amendments to Chapter 54 of the Civil Code.

Corporate Governance Strengthening/Company Law

Chapter 4 of the Civil Code of Azerbaijan ("Legal Entities") serves as Azerbaijan's company law. In earlier reporting periods, TIRSP and the International Financial Corporation (IFC)'s Corporate Governance Project made it clear to the SCS that the "joint stock company" provisions of Chapter 4 do not sufficiently accommodate the proper operation of both publicly traded and privately held corporations, and that as such, the proper functioning of a market in corporate equity securities could not be expected to occur if the relevant provisions of Chapter 4 were not significantly modified. In response, an informal working group consisting of the IFC, TIRSP, and relevant SCS employees was composed and charged with drafting amendments to the joint stock company provisions of Chapter 4. In the summer months and in the first seven weeks of this reporting period, TIRSP participated in the working group meetings on both a formal and an informal basis (through live meetings, telephone, and e-mail exchanges), and ultimately produced a discussion draft. TIRSP provided significant input regarding officerships, interlocking directorships, "nuclear option" dissolution rights for minority shareholders, notice provisions, and shareholder meeting conduct. TIRSP also served as a resource regarding international best practices and the experiences of other countries similarly situated. In late November, an English translation of the draft amendments to Chapter 4 of the Civil Code, was completed and made available to TIRSP and to the IFC for peer review. TIRSP has completed its commentaries to this draft.

In the next reporting period, TIRSP will serve as a resource for advocacy of the important reforms contained in the draft amendments.

Property Tax Reform

In the course of the summer and early autumn 2009, the Agency for Registration of Rights in Immovable Property (the "Agency") was re-organized. It was not until October 2009 that the effect of this re-organization upon property appraisal and the entire property tax reform effort became apparent.

The Agency, previously independent, has been brought under the control of the Ministry of State Property (MOSP). More significantly, however, the Agency, by way of the Ministry, was able to wrest from the Presidential Apparatus a decree by which the Agency is to serve as the sole "official" appraiser of immovable property in Azerbaijan. Insofar as property appraisal is the foundation upon which a modern property tax system is built and prudent trade and investment practices dictate that the property appraisal process and methodology be both transparent and of international best practice standards (e.g. non-arbitrary), this has important implications for the development of a property tax system in Azerbaijan, as well as the development of the overall business enabling environment. In October, TIRSP met with Agency officials, and, after a series of deliberations, offered the following to the Agency:

- Dr. Joseph Eckert and Valentina Solodovnikova will complete the already-begun impact assessment based upon their analysis of the data from the inventory file provided by the Agency for the Yasamal region. Based upon these results, TIRSP will make modifications to the draft law.
- TIRSP will provide additional courses on Computer Assisted Mass Appraisal (“CAMA”) covering both residential and commercial properties. These courses will be provided to both the Agency and to the Azerbaijan Society of Appraisers. The Agency has repeatedly stressed that TIRSP’s provision of this training is of high priority.
- Provide ongoing assistance to the Agency regarding land zone development and mass valuation models.

Revenue Forecasting and Modeling

In this reporting period, TIRSP continued its intensive work with the MOF regarding the use of economic modeling tools to accurately forecast tax revenues. Indeed, in a meeting with the USAID Country Coordinator and the EG COTR in October, Deputy Minister Bayramov specifically praised the work of TIRSP, and he asked that TIRSP continue its assistance throughout the remainder of TIRSP’s presence in Azerbaijan.

In December, TIRSP and relevant Finance officials further refined the revenue forecasting model that they created over the course of the past year. TIRSP advisors met with the Forecasting Department of the Ministry which is charged with learning how to apply the model and develop recommendations regarding findings derived from the model. A 65-page document detailing the model is currently in translation.

The Ministry intends to publish the estimation methodology for budget revenues in order to provide a basis for consistent and transparent tax imposition and collection.

Competition Code

The draft Competition Code has been pending before the Parliament for several legislative terms. In 2008, TIRSP, in conjunction with the US Federal Trade Commission (FTC), provided extensive commentary regarding numerous provisions of the draft Code that both TIRSP and the FTC found to be contrary to Azerbaijan’s express desire to create a vibrant, competitive marketplace. In May 2009, TIRSP presented a short seminar in which it briefly discussed with certain parliamentarians those observations. The parliamentarians present agreed with the assessments provided by TIRSP, and stated that it is unlikely that the draft will be enacted in its present form. At that time, the parliamentarians asked that TIRSP organize a discussion/workshop regarding the draft Code sometime in the autumn (or at some other time closer to the draft’s second or third readings).

During this reporting period, TIRSP interacted with the Parliament (and with USAID’s Parliamentary Program) to schedule a workshop and to bring relevant experts to Azerbaijan. Although several dates had been agreed, parliamentary docket realities have proven to be such that the event has been postponed several times. Presently, TIRSP and the Parliament intend to provide this intervention in mid-January 2010.

Electronic Commerce

In late October, TIRSP and the USAID COTR Sheila Young met with Sahil Babayev, the MED's Head of International Relations. Mr. Babayev stressed that the Minister was keen to work with USAID to determine why electronic commerce and electronic signatures have previously failed to gain widespread acceptance and use in Azerbaijan. TIRSP and the COTR agreed that the project would examine the current legal, regulatory and taxation environments surrounding e-commerce and that TIRSP would provide recommendations.

In December, TIRSP's expert, working in conjunction with TIRSP local staff, identified and analyzed existing electronic commerce laws in Azerbaijan. In preparation of the analysis, TIRSP met with the Head of the Economic Policy Department of MED and with the Deputy Minister of Communications and Information Technology, Mr. Elmir Velizadeh. Additionally, TIRSP met with private sector representatives from Microsoft, Silver Key, and the Head of the ICT Committee of the American Chamber of Commerce.²

The meetings revealed that there had been an e-commerce working group (very likely, donor assisted) organized in association with the drafting of the two e-commerce laws presently effective in Azerbaijan. However, once the laws were enacted, the group became inactive, and implementing regulations and policies have never been developed.

TIRSP's analysis is comprised of (i.) a memorandum summarizing the expert's review of existing e-commerce law in Azerbaijan and suggesting revisions to bring such law into compliance with international best practice, as well as (ii.) a list of areas related to existing e-commerce laws that Azerbaijan must address, either by law or regulation, to effectively implement e-commerce. The most significant element identified in item ii is cybercrime. While Azerbaijan has become a signatory to the Convention on Cybercrime, Azerbaijan does not have a national law that complies with this Convention. Another important area is taxation, an area of concern mentioned by both MED and MCIT.

TIRSP will conduct a meeting/training event with the members of the official working group (which was never formally disbanded) so that steps can be taken to ensure the inclusion of the group in further e-commerce efforts. TIRSP is in the process of seeking additional guidance from USAID and relevant experts regarding the level of effort that will be necessary to provide the level of assistance that the GOAJ desires in the area of e-commerce.

Property Registry

After weeks of attempting to secure a meeting with decision-making personnel at the newly reorganized State Agency for Registration of Rights in Real Property (the "Agency"), TIRSP staff met in late November with the head of the Cadastre Division and his team as well as with the new head of the Valuation and Appraisal Division. The meetings opened discussion as to areas of future cooperation with TIRSP. TIRSP has prepared a scope of work for an expert to assess the organization of the cadastre and to otherwise address the following areas that were identified by way of follow-on meetings with the Agency and with the World Bank's Real Property Registration Project:

² At the conclusion of the quarter, meetings with the Ministry of Finance, the Central Bank, and an e-commerce NGO were also planned, but had yet to occur.

- Cadastre-new procedures and the cadastre law/registry law;
- Law on Condominium;
- Law on Mortgage and related procedures;
- Compulsory Purchase Law;
- Support to the Law Center (being organized as of press time).

Secured Transactions/Leasing

1. Secured Transactions

A project that in many ways served as TIRSP's predecessor worked with an Azerbaijani working group to produce a draft law on movable property secured transactions. Although that intervention occurred in 2005-2006, Azerbaijan has yet to enact a law on movable property secured transactions, and the lack of such a law and related registry system has been characterized by experts as a major impediment to access-to-finance by small and medium sized enterprises.

The draft law has been circulated among ministries and at one point reached the Presidential Apparat. However, to date, it has not been submitted to Parliament.³ During this reporting period, TIRSP planned a seminar/workshop for relevant stakeholders in an effort to re-invigorate the secured transactions law initiative. Due to scheduling conflicts, such an intervention is presently planned for February. TIRSP also has been in discussions with the IFC's Access to Finance project regarding assistance that the IFC might be able to provide regarding the creation and initial operation of the notice filing (i.e., "registry") system that the draft law envisions. Also during this reporting period, TIRSP began designing a diagnostic assessment that will reveal what are Azerbaijan's capacities regarding such a system; what agency of administration is best equipped to operate the system; and what, if any, funding needs attend the initiation of such a system. TIRSP intends to conduct such assessment during the next reporting period in cooperation with the IFC.

2. Leasing

In cooperation with the USAID Private Sector Competitiveness Enhancement Program (PSCEP), TIRSP made presentations to Royal Bank (December 7-8) and Demir Bank (December 10-11) regarding finance leasing, operating leases, sale/leaseback, and the debtor-creditor laws necessary to accommodate such arrangements (i.e. secured transactions and bankruptcy). During the current reporting period, TIRSP staff members met with representatives of the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), and the Azerbaijan Leasing Association to discuss redrafting the leasing law and to plan for a "rollout" event to be held sometime in early February 2010. Working in cooperation with the, TIRSP staff also performed required preparatory legal research on equipment leasing as a planning input for a seminar on equipment leasing that was held in December. TIRSP's Deputy Chief of Party served as a faculty member at this seminar.

³ A competing rumor asserts that it reached the Parliament but was returned to the Presidential Apparat with questions and requests for clarifications. The Parliament's Secretariat appears to refute this.

Bankruptcy

During the reporting period, the MED expressed interest in re-invigorating the bankruptcy efforts that TIRSP and MED undertook last year, although repeated attempts at scheduling meetings and planning interventions were not fruitful. Given, however, that the afore-described interventions regarding leasing and secured transactions will make clear to relevant players the necessity of a western-style law on orderly liquidation, reorganization, and creditors' rights, TIRSP anticipates that the GOAJ will soon again become interested in this essential environment-enhancing area of law. TIRSP is ready to provide assistance in this area.

Component Three – Public Expenditure and Investment Environment

ASEU-Duke University Courses/Training on Project Appraisal and Tax Administration

TIRSP staff initiated planning with appropriate officials and faculty at the Azerbaijan State Economics University during October for courses on project appraisal and tax administration to be taught during the Spring 2010 semester. Agreement was reached that TIRSP would contract the Sanford School of Public Policy at Duke University to conduct these courses; they are follow-on courses to ones previously provided by Duke under the auspices of the USAID/Deloitte PERS Project.

Subsequent meetings with ASEU personnel and conference calls with Sanford School faculty held during November and December resulted in agreement by all parties to proceed with two courses to begin on February 16, 2010. The Duke professors who will teach the ASEU courses will also provide a training program on these disciplines for appropriate ministerial staff within the GOAJ. Additional planning and logistical support activities are proceeding.

Arrival of Component Manager

Component Three Manager, Deepak Kapoor, arrived in post in mid-December after delay in his deployment due to complications in obtaining his Azerbaijan visa. This delay has slowed planning and initiation of Component Three project activities.

Annex I. Level of Effort

This represents LOE actual totals and projections from Q1 2010 only. These are not life-of-project totals.

Name	Company	Labor Category	Total LOE Invoiced October - December 2009*
Chemonics			
Donald Hart	Chemonics	1 - Level 1 Attorney	20
EIF			
Farhat Y. Farhat	EIF	3 - Level 1 Trade, International Transaction, and Competition Policy Specialist	42
Richard Self	EIF	7 - Level 1 Sector Specialist	37
Kim Hjort	EIF	7 - Level 1 Sector Specialist	10
P. Lance Graef	EIF	3 - Level 1 Trade, International Transaction, and Competition Policy Specialist	30
Dr. Harry DeGorter	EIF	6 - Level 1 Economist	18
Ed Nemeroff	EIF	7 - Level 1 Sector Specialist	31
Polly Maier	EIF	1 - Level 1 Attorney	12
Ben Irvin	EIF	1 - Level 1 Attorney	6
Brian O'Shea	EIF	1 - Level 1 Attorney	15
Craig Blakeley	EIF	1 - Level 1 Attorney	16
AECOM			
Selcuk Caner	AECOM	6 - Level 1 Economist	6
*Note: December 2009 numbers not yet final			

ANNEX II. DELIVERABLES

The Accession Process

- A paper on telecommunications services and their implications for WTO accession
- A paper on transportation services issues for Azerbaijan WTO accession
- A paper on energy and energy related services with regard to WTO accession
- A paper on financial services and their implications for WTO accession
- A paper on goods liberalization and commitments
- A report on the procedures for setting and administering tariff rate quotas in the WTO

Legal Reform

- Commentary on the Emergency Ministry's opinion letter re amendments to Decree 609 and 782
- Comments on Draft Anti Piracy Law
- Analysis of the latest version of Law on Foodstuffs and related ACC/8 conformity checklist

Institutional Reform

- A prioritized Codex harmonization plan
- Needs Assessment for Making Azerbaijan's SPS/TBT notification points operational

Capital Markets

- Full "discussion draft" of a new securities law for Azerbaijan (Chapter 54 of the Civil Code)
- Comments on Listing Rules of the Baku Stock Exchange
- Sample contract for production of a TV documentary (for public awareness)
- Market surveillance manual
- Comments on the creation of a "5-year plan"
- Work plan

Corporate Governance/Company Law

- Commentary on draft amendments to Chapter 4 of the Civil Code

Revenue Forecasting

- 65-page manual on use of the revenue forecasting tool

Electronic Commerce

- Memorandum on best practices and analysis of existing law;
- "Gap" list of areas that must be addressed (e.g. Cybercrime)

Leasing/Secured Transactions

- Materials for leasing workshops