

USAID/Azerbaijan

Annual Report

FY 2005

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Azerbaijan

Performance:

Background: Azerbaijan regained its independence in 1991 after the collapse of the Soviet Union and transitioned to a multi-party democracy in the late 1990's. An oil rich country on the Caspian Sea located between Russia and Iran, Azerbaijan has been able to successfully develop its oil and gas resources and to achieve macroeconomic stability. However, it is still far from producing prosperity, namely a functioning economy with gainful employment, rule of law, health and other social systems, for its eight million citizens. In the corruption index, Transparency International ranks Azerbaijan 140 out of 146. Corruption is endemic in the government and throughout society. If the GOAZ does not address corruption immediately in a serious manner, Azerbaijan's opportunity to utilize its energy resources to develop a viable democracy and market economy that will bring prosperity to the majority of its citizens will be lost.

The authoritarian government of Azerbaijan is a carefully designed autocratic system, having its roots in the Soviet era in which former President Heydar Aliyev and Soviet politburo members began to construct in the late 1960's with heavy reliance on family and clan members, oil revenues and patronage. Though progress towards democracy and a free market are evidenced in progressive legislation that has been passed in democratic processes, rule of law and economic reform, implementation is negligible.

Azerbaijan's macro-economic situation remains stable with a slight increase in the rate of inflation. Per capita GDP has increased to \$3,400. However, still 49% of the population remains below the poverty line indicating that the rich are getting richer, the poor are not benefiting from increased oil revenues nor changes in economic legislation. Factors impeding economic growth outside the non-oil sector include corruption, lack of legal and regulatory frameworks, and lack of access to investment capital. Contracts between oil companies and the GOAZ are honored and upheld by law based upon profit-sharing agreements (PSAs), non-oil enterprises in the private sector do not have such luxury. Every sector from pharmaceuticals to agriculture to transport to construction is controlled by personal commercial interests of the highest ranking GOAZ officials. A free market economy will not develop with the current monopolized and corrupt situation.

The MCP Monitoring Country Progress charts show that Azerbaijan is an extremely poor performer in the human capital index, specifically education and health. These two ministries are notorious for corruption which is demonstrated in the deplorable conditions of the majority of school buildings and materials, ancient and irrelevant curricula from the Soviet era, severely underpaid education personnel - at every level corruption is endemic. The same is true in the health sector. While the health system has a surplus of doctors, nurses and other personnel, their training and knowledge is outdated; they are inadequately trained for preventive medicine and the system is financially starved; many facilities are poorly maintained, equipped and supplied; quality of care falls while costs to consumers rise, so utilization declines. According to the CDC Reproductive Health Survey, 2001 (RHS), the infant and under five mortality rates are 81 and 92 per 1000 live births, respectively. These rates are the highest in the E&E region, and comparable to many countries in South Asia and Sub-Saharan Africa. UNICEF (MICS, 2000) estimates the maternal mortality ratio at 79 per 100,000 live births.

U.S. foreign policy objectives seek cooperation in combating terrorism and other trans-border threats and a successful transition to a democratic political system and market economy. It is the interest of the U.S. to help Azerbaijan become a reliable supplier of oil and gas to international markets in the West as it will be an important source of non-OPEC oil in the future. The President's January 2003 waiver of Section 907 of the FREEDOM Support Act allowed USAID to continue assistance priorities of promoting economic growth and reform, including guiding energy wealth toward developing infrastructure and sustainable social systems; and strengthening and expanding democratic institutions and rule of law.

Azerbaijan is a U.S. ally in the war on terrorism having lent its airspace in support of Operation Enduring Freedom, and Azerbaijani troops now serve alongside U.S. troops in Afghanistan, Iraq, and Kosovo.

Donor Relations: Other donors in Azerbaijan are the World Bank, International Monetary Fund (IMF), Governments of Germany and the United Kingdom, United Nations Development Programme (UNDP), European Bank for Reconstruction and Development (EBRD), European Union, UNICEF, and UNCHR.

Donor coordination continues to be strong in rule of law, democracy and governance; financial, economic and energy sector reforms; and community health activities. The Mission has taken the lead to focus donor coordination on anti-corruption strategies and forging new ties with key donors, such as the Global Fund, working on critical health policy issues. USAID coordinates with the EU, German and British governments, and OSCE on rule of law and elections; Council of Europe on municipalities; UNFPA on reproductive health; USDA on agricultural technical assistance; World Bank, EBRD and IMF on financial, economic, energy sector reform.

Challenges: Azerbaijan has made great gains in recent years but still faces formidable challenges. The ultimate challenge continues to be to create the institutions and structures of a viable democracy and market economy that will appropriately channel oil revenues to further development of the country and equitable prosperity for all Azerbaijanis. The obstacle to this challenge is combating the endemic and entrenched corruption that is systemic in the government and society.

The tasks ahead include (a) improving governance and reducing corruption. Corruption is pervasive at all levels of government, including judicial bodies, ministries, and local government administrations. Corruption is a significant deterrent to investment, especially in the non-energy sectors. (b) Diversifying the economy away from its reliance on oil and gas, and creating jobs in urban areas as well as the regions. (c) Creating viable ministries responsible for social support that protect all stratas of society and promote human capital.

Key Achievements: FY 2004 was a year of repositioning the country program for greater effectiveness and impact in the areas of economic reform; democracy , governance and civil society; and health and community development.

1. Improve Economic Policy and Governance

The Agri-Input Dealers Association experienced increased sales of over \$11 million in fertilizer and seeds, a 400% increase from the previous year. Non-Bank Financial Institutions (NBFIs) expanded their operations and reached \$35 million in outstanding portfolio (100% increase from 2002). NBFIs serviced 340 urban enterprises and real estate mortgage clients; 2,700 agribusinesses; and 8,800 group lending clients. Private sector supported activities reported over 3,600 jobs created in FY 2004. A draft law on the establishment of a public utilities regulatory agency was prepared and the completion of a feasibility study to rehabilitate the country's main power plant was completed.

2. Promote and Support Free and Fair Elections

The Presidential Election was held under the new Unified Election Code of which USAID provided critical and timely assistance to the GOAJ resulting in much-needed transparency provisions (e.g. transparent ballot boxes, numbered ballot box seals and protocol forms, use of envelopes, signature procedures, etc). USAID's political party strengthening and voter and media education activities stimulated public debate around political concerns, the emergence of a new generation of political actors, and an active multi-party campaign.

3. Strengthen Civil Society

Six hundred eighty-six community groups organized small infrastructure projects, health and micro-business activities. Community groups contributed 35% of the total project costs, in cash, labor and materials to implement community projects representing their ability to organize and address their problems. Eighty-four community based organizations are registered with municipal governments. USAID contributed to anti-corruption efforts through a series of public education and public discourse events on the daily costs of corruption.

4. Economic Prosperity and Security

Local Business Development Services (BDS) provided support in strategic planning and service delivery, including technical training for agricultural extension agents, two feed mills and a regional handicraft association. These services enabled small businesses in targeted communities to improve services, expand operations, and increase their number of employees, resulting in a total of 3,302 businesses sustained. Business Development Services (BDS) shifted from direct provision of these services to facilitation by local private and non-government organizations trained by USAID. Further development of a regional association, and support to seven community owned businesses were provided. Eighty-four percent of direct recipients were IDPs and 54% of jobs created were filled by IDPs. Loan disbursements expanded into new geographic regions.

5. Family and Workforce Health

Health clinic utilization rates for men and women reached 41% and 59% respectively, due to improvement of clinical services in the targeted communities. Relationships with regional Ministry of Health improved leading to interventions including community health funds, revolving drug funds, insurance systems, improved medical facilities and training of health professionals which improved the quality of services in rural clinics.

A health center offering an approach to women's health care with a range of services beyond that offered by traditional women's consultation centers in the country became fully operational. The center serves as a clinical basis for the training course on family medicine at the Institute of Postgraduate Medical Education.

Gender Disparities: Gender concerns are integrated across all of the strategic objectives. A gender assessment was completed in November 2003 which found traditional social norms continue to restrict women's roles in society, women are increasingly becoming family breadwinners as a result of social and physical displacement as well as loss of jobs by men, and females represent a large proportion of small traders and vendors producing the challenge for them to move into small enterprises. The Mission plans to strengthen the focus on gender issues in the new five-year strategy that is currently being developed.

Results Framework

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

SO Level Indicator(s):

Employment of assisted enterprises

112-0131 Increased access to production inputs

112-0132 Increased access to credits

112-0133 Increased market responsiveness of enterprises

112-0210 Civil Society Better Organized and Represented

SO Level Indicator(s):

Number of outreach and advocacy events

112-0211 Issue-based formal and informal associations/advocacy groups organized and active

112-0212 Legal and policy advocacy environment supports civil society and media development

112-0213 Increased access to objective/varied information

112-0310 Reduced Human Suffering in Conflict-Affected Areas

SO Level Indicator(s):

Value and percent of community contributions to community projects

112-0311 Vulnerable communities better able to meet their own needs

112-0420 Cross-Cutting Programs