



COOPERATION STRATEGY SOUTH CAUCASUS 2008–2011



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

State Secretariat for
Economic Affairs SECO

Cooperation Strategy South Caucasus 2008–2011

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12 Radiani Street 0179 Tbilisi, Georgia
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Photographs

Swiss Agency for Development and Cooperation (SDC)

Layout

Mark Manion, Communication Arts

Available at

SDC and SECO, Berne
Swiss Cooperation Office

An electronic version of the "Cooperation Strategy 2008–2011" is available via Internet

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Federal Department for Foreign Affairs
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**COOPERATION STRATEGY
SOUTH CAUCASUS
2008–2011**

List of abbreviations

DfID	Department for International Development (UK)
DRR	Disaster Risk reduction
ENP	European Neighbourhood Policy
EU	European Union
GDP	Gross Domestic Product
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (D)
MDGs	Millennium Development Goals
MERV	Monitoring der Entwicklungsrelevanten Veränderungen (SDC internal monitoring tool of development context)
NBA	National Bank of Azerbaijan
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
SDC	Swiss Agency for Development and Cooperation
SECO	Swiss State Secretariat for Economic Affairs
SME	Small and Medium-sized Enterprise
UN	Organisations of the United Nations
USAID	United States Agency for International Development (USA)
WB	World Bank

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Introduction

A renewed Swiss Commitment

The Swiss Agency for Development and Cooperation (SDC) and the Swiss State Secretariat for Economic Affairs (SECO) have elaborated the present Swiss Cooperation Strategy together with development partners in the South Caucasus, as a renewed commitment to supporting the efforts at reducing poverty and promoting economic development in the region.

This Swiss Cooperation Strategy presents the corner stones of the future cooperation programme with South Caucasian countries, namely Armenia, Azerbaijan and Georgia. The document has been prepared in line with the development priorities in the countries (context mid-2007, national programmes, Poverty Reduction Strategies Papers), the experiences and lessons learned by all actors in the implementation of programmes and projects, and the fields of activities and competencies of other donors and development banks engaged in the South Caucasus.

The new Cooperation Strategy carefully takes into consideration the fact that, for various reasons, the three South Caucasian republics nowadays hardly perceive themselves as a region. The post-Soviet territorial disputes – Nagorno-Karabakh, Abkhazia and South Ossetia – still remain unresolved and keep hampering regional development and stability in a general sense. Correspondingly, the political context is still considerably volatile and unfortunately might remain so for quite some time. Against this difficult background, SDC and SECO will be aiming at easing the way towards a peaceful resolution

of the conflicts, as well as towards a more sustainable and equitable economic development by addressing common issues in the three countries through a common approach.

This document comprises four main parts. The first one presents the evolution of the context and the current situation (status in autumn 2007). The second part reflects the results achieved by the Swiss cooperation and the lessons learned over the last five years. The strategic orientation of the Swiss cooperation in the South Caucasus is outlined in part three, whereas in the fourth part the implementation and management of the programme is described.

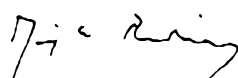
The present Strategy sets the frame and orientation for the Swiss cooperation in the South Caucasus for the four years to come. The document is at the same time a tool for planning and monitoring. It is the second formal Swiss Medium-Term Programme for the South Caucasus set within the frame of agreement on cooperation between the Government of Switzerland and the Governments of the Republic of Armenia in 2004, Georgia in 2005, and Azerbaijan in 2006.

While both SECO and SDC will closely work together in the implementation of the development programme, each institution fulfills its respective role and remains responsible for the financing and execution of its part of the programme, and for the achievement of the objectives and results defined in this document.

Cooperation Strategy for the South Caucasus 2008–2011 approved: January 2008



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Executive Summary

The three republics of the South Caucasus, Armenia, Azerbaijan and Georgia, are located in a geopolitically key region between powerful neighbours. More than fifteen years after independence, post-Soviet territorial disputes (Nagorno-Karabakh, Abkhazia and South Ossetia) remain unresolved and keep hampering regional development and stability. Besides a peaceful resolution of these conflicts, **challenges** for the three countries are numerous: one of them is the consolidation of newly established democratic regimes with the needed completion of on-going reforms and the general improvement of governance conditions (fight against corruption, decentralisation, transparency/accountability, protection of human rights, etc.). Another important challenge is to introduce a more equitable distribution of the benefits from economic growth into economic policies (despite impressive growth rates, socioeconomic disparities remain a major problem). A better inclusion of vulnerable social groups in relation to various types of public services deserves further attention, especially insofar as internally displaced persons are concerned.

However, there is a series of **opportunities** for development in the South Caucasus as well, such as important economic potentials (natural resources, tourism, trade, etc.), very active Diasporas, commitments from international donors and a relatively good alignment of international cooperation with national priorities and national programmes. Moreover, the Swiss cooperation can rely on excellent relationships with national authorities, valuable expertise in key domains and, in many cases, on competent, committed and experienced project partners.

Tangible **results** have been attained during the cooperation period of 2002–2006 in priority areas like social housing, disaster risk reduction, economic development in rural areas (income generating activities), infrastructure (water supply) and economic policy support (central banking). Swiss-funded activities have so far brought substantial inputs into the countries' reform agendas, seen against their relatively modest importance in terms of funding. Such successes

still need to be consolidated, and strong support from the international community is requested in order to make them sustainable.

The new **Cooperation Strategy for South Caucasus 2008–2011** pursues the overall objective of reducing economic disparities and supporting the transition process in the South Caucasus. In this upcoming cooperation period from 2008–2011, Switzerland further sees its interventions in the South Caucasus as a regional programme, but is very aware that the general political context will remain volatile for some time, because of the still unresolved conflicts. The new Cooperation Strategy cannot make a substantial contribution to the resolution processes themselves, but it can contribute to ease the way towards them. Therefore, a conflict sensitive approach is a must. Through their interventions, SDC and SECO aim at addressing important issues that the countries have in common while implementing distinct projects and programmes in each of the three countries, taking their specificities into due consideration.

Three domains of intervention were chosen according to key challenges of the region, national priorities, comparative advantages of Swiss cooperation (as shown by previous experience), and priorities of other donors:

- **Recovery and Reconstruction** (the Georgian government has adopted a social protection strategy for the vulnerable population including IDPs; the three governments have taken more responsibility over the most vulnerable segment of their population; national capacities in Armenia and Georgia for response to natural & man-made disasters have increased).
- **Economic Development and Employment** (Farmers acquired knowledge/capacities to make informed and efficient use of resources and market channels; principles of disaster risk reduction are applied at local level; interaction between target groups and local self-government is enhanced through institutional

capacity building and participatory decision-making; in Azerbaijan, improved framework conditions for trade and investment and a strengthened financial market infrastructure lead to a diversified growth in the private sector).

- **Macroeconomic Policy Support** (In Azerbaijan, reform progress in public finance management practices is regularly disclosed; economic modelling tools are used in government agencies; advice and analysis are available for policy-makers at the National Bank, the Ministry of Finance and other relevant national institutions).

The following cross-sectoral **principles** will guide the Strategy implementation: Governance (transparency, accountability, participation, non-discrimination, and effectiveness), Gender Balance, Disaster Risk Reduction, Pro Poor Growth (i.e. Make the Market Work for the Poor), Human-Rights-Based Approach, and the Paris Declaration's criteria on aid harmonisation and alignment.

The **geographical focus** will depend on the domain of cooperation: in the Economic Development and Employment domain, the activities funded will concentrate on selected rural areas: Syunik province in Armenia; Racha-Lechkhumi and Samtskhe-Javakheti regions in Georgia; and the South-Western part and Nakhichevan exclave in Azerbaijan.

The total **budget** for Swiss cooperation per annum will be in the range of CHF 19–20 million, of which roughly CHF 6 million are contributed by SECO and CHF 13–14 million by SDC.





Foto © Nasa Earth View

1 Context and Development Policy

1.1 Geopolitical and International Context

The South Caucasus – **Armenia, Azerbaijan** and **Georgia** – forms a geophysical entity between the Black Sea, the Caspian Sea and the powerful neighbouring countries of the Russian Federation, Turkey and Iran. Despite the shared experience of seventy years under Soviet rule and for a variety of historical, ethnic, religious, and political reasons, the three South Caucasian republics nowadays hardly perceive themselves as “a region”. About fifteen million people belong to some twenty ethnic groups with almost as many languages, Russian continuing to serve as a widely understood lingua franca. While Armenians and Georgians are Orthodox Christians (of distinct and independent patriarchates), Azerbaijani are Muslims of the Shiite faith.

Inherited, severe post-Soviet territorial disputes – Nagorno-Karabakh, Abkhazia and South Ossetia – have resulted in more than one million internally displaced persons (IDPs) and remain unresolved after more than a decade, hampering regional development and stability in a general sense. The efforts of the international organisations involved since the mid-nineties – UN and OSCE – have prevented a renewed outbreak of hostilities, but have not led to a political solution of these conflicts so far. Political negotiations are still going on, but hardly any progress is being made. Internationally unrecognised de-facto state structures have emerged in Nagorno-Karabakh, Abkhazia and South Ossetia, and these societies are largely developing in political, economic and social isolation. While peace on the ground has mostly been holding, it remains fragile and could deteriorate rapidly.

Important geopolitical conflicts of interests (the Russian Federation, the European Union, Turkey, Iran, and the USA) prevail in the region. Georgia has clearly chosen the path towards Euro-Atlantic integration, at the same time antagonising Russia. Azerbaijan has so far maintained a relatively pragmatic foreign policy. While Georgia, Azerbaijan and Turkey are increasingly developing their economic ties (e.g. Baku-Tbilisi-Ceyhan oil pipeline), Armenia remains isolated (two main borders closed) and strongly depends on Russia. Azerbaijan has also developed close trading ties with Iran, whose relation with Azerbaijan is under pressure for fear that its large Azeri minority might be attracted by Baku’s economic success and secular regime. At the same time, the **three countries** are heavily interdependent in their development and economic challenges. Against this background the EU, in its European Neighbourhood Programme, pursues a regional approach, concluding treaties with all three countries at the same time and offering very similar opportunities to them.

1.2 Political and Socio-Economic Context

The independence in 1991 led to disruption of economic ties and subsidies within the former Soviet Union. The **three countries** experienced severe fall-backs in real economic terms also due to warfare and corruption. They have, in many aspects, barely regained pre-independence economic power. Their transition from the Soviet system to multi-party political systems is still an on-going process, as well as is the building of a modern, citizens-based new statehood. They follow different models, adapted to their specific history and needs, for further developing their structures. Reasons for the unachieved transition are the unresolved territorial conflicts (Nagorno-Karabakh, South Ossetia and Abkhazia) and the resulting difficult socio-economic situation of the displaced populations, as well as the lack of democratic experience.

In recent years, the **three countries** have nevertheless enjoyed double-digit economic growth rates. It is noteworthy, though, that this growth has so far failed to increase the welfare of the population at large. Only small segments of the societies can benefit from the growth, while poverty is in some cases not decreasing, but as in Georgia even increasing. The political development in Georgia in late 2007 has shown how fragile political stability and civil liberties can become. 2008 will be a year of presidential and parliamentary elections and will show how the new republics succeed in maintaining relative political stability while pursuing reforms.

Armenia's growth relies not only, but mainly, on important financial contributions from the Armenian Diaspora and a booming construction and real estate sector, targeting mainly the capital Yerevan. The benefits of economic growth have so far hardly been equitably shared between urban and rural regions where poverty remains an issue, as is also the case in Georgia. The increasing international isolation and the still unresolved conflict over Nagorno-Karabakh are the main challenges for Armenia today. The uncertainty about neighbouring Iran (increased sanctions, possible military action), an important trading partner, is perceived as problematic by Armenia.

Azerbaijan owes its stupendous economic growth (35% in 2006) to the oil sector. It faces, however, the threats of severe inflation and the so-called Dutch disease¹, and struggles to integrate this extreme growth into a sustainable development strategy. Here also, the socio-economic disparities between cities and countryside tend to increase. Even if 42% of the Azeri population lives on agriculture, growth in this sector remains at a level lower than 5%. Maintaining political stability and further developing a balanced foreign policy are key priorities for the Azerbaijani authorities. Azerbaijan is committed, as are the other South Caucasian countries, towards European values and standards, and is progressively moving in this direction. Improvements still remain to be achieved in areas such as, e.g., freedom of the press, independence of the judiciary, and the fight against corruption. As for Armenia and Georgia, the presidential elections scheduled in 2008 will provide an important indicator as to the possible strengthening of democracy in the country.

In **Georgia**, following long lost years of civil wars, corruption and stagnation, the so-called "Rose Revolution" in late 2003 brought to power a young and Western-oriented elite led by a charismatic president. The new leaders have delivered some spectacular reforms (i.e. education, police and taxes) and successes (energy distribution, construction, law and order). Their main success has been the restoration of statehood, resulting in increased credibility for Georgian citizens and Western partners. While popular support for the president's liberal reform agenda and foreign policy choice was overwhelming in the first years after the Rose Revolution, citizens have however become more critical by end-2007, as expressed, among others, by mass street protests in Tbilisi and other cities, a strengthened political opposition and the results of the presidential elections in early 2008.

¹ The so-called "Dutch Disease" describes a situation in which a natural resource boom linked with a substantial increase in exports leads to a currency appreciation and subsequent deterioration of the terms of trade for the rest of the economy.



Among the main reasons quoted for popular discontent are the lack of an independent judiciary, use of force against peaceful demonstrations, privatization of strategic assets, persisting poverty all over the country, lacking transparency in governmental decision-making, disregard of property rights, and political streamlining of public and private electronic media. In relation to foreign policy, Georgia has managed to firmly put on the international agenda the issue of seeking new ways of resolving its territorial conflicts. The security policy option of NATO membership being pursued, is supported by the majority of the Georgian population at the price of continuously troubled relations with the important neighbour of Russia.

1.3 Development Policy Context

The shared common first priority of the **three countries** is the reduction of socioeconomic disparities (i.e., essentially, the reduction of rural poverty) against the background of sustained economic growth. The issue of equitable distribution of the benefits of economic growth is paramount because it challenges the social and, consequently, political stability of each country. Socioeconomic disparities also hamper the governments' efforts towards compromised solutions for the territorial conflicts, as nationalistic political forces exploit people's dissatisfaction to fight such compromises.

Armenia's Poverty Reduction Strategy Paper undertakes to reduce poverty and inequality through promotion of economic growth and reduction of income inequality (poverty reduction), particularly in rural areas. It furthermore aims at reducing poverty through improvement of education and health sectors (schooling and child-mother mortality). The main donors (WB, UN, EU, USAID and DfID) have aligned their programmes according to the national priorities and consequently target economic development, particularly through private sector, and non-income poverty reduction. A *Rural Poverty Eradication Programme* launched in 2006 aims at aligning Diaspora contributions according to this most pressing development challenge in rural villages.

Azerbaijan's development policy is structured around the *State Programme for Poverty Reduction and Sustainable Development (2006–2015)* and the *State Regional Social Economic Development Programme (2004–2008)*. Both are monitored against the MDGs. The Azerbaijani Government just started in 2007 to become a solid counterpart for donors to coordinate foreign assistance. The key development partners (SECO, WB, EU, USAID, IMF and KfW) promote, in line with State programmes, diversification of the economy and increased efficiency and transparency in the management of oil revenues. The rapidly changing development situation forces development partners to constantly rethink acquired approaches.

Georgia's vision of mid-term development is outlined in a document entitled *Basic Data and Directions (2007–2010)*. Adopted by the government of Georgia in June 2006 (and to be updated annually), it encompasses the *Medium-Term Strategy of the Government of Georgia (2007–2010)* and the corresponding *Medium-Term Expenditure Framework*. The key actors (WB, UN, EU and USAID) still struggle to cope with the high number of national priorities but, at the same time, all agree to focus on the general economic development and reduction of economic disparities.

The **three countries** have furthermore negotiated mutual commitments with the EU in the framework of the *European Neighbourhood Policy*. The three respective Action Plans, adopted in late 2006, represent the most recent overall development policy documents, focussing on peaceful conflict resolution, rule of law/good governance, private sector-led economic development, transport, and energy.

1.4 Challenges and Opportunities

The most serious obstacles for sustainable development in the **three countries** are definitely the unresolved territorial conflicts. These conflicts not only translate into shortcomings in supply and economic blockades, hindering trade from growing and expanding, but they also inhibit levels of foreign and domestic investments. They furthermore capture an important part of the respective Government's efforts and financial means.

The unresolved conflict over Nagorno-Karabakh keeps **Armenia** in continuing international isolation. The social, political and economic cost of this isolation is considerable and includes an increasing dependency on Russia as a protector and main external investor. Recently, Armenia was successful in reinforcing its economic ties with Iran, namely in the field of energy supply. The relations, including budgetary, of Armenian authorities with the de facto authorities of the self-proclaimed Republic of Nagorno-Karabakh, along with corruption and other governance concerns, prevent international partners from extending the full range of development instruments (e.g. sector-wide approaches and budgetary support) to Armenia. Persisting rural poverty and strong, deliberate appreciation of the national currency – directly affecting the remittances – are the greatest challenges. On the other hand, Armenia's most important asset is the strong solidarity with the Armenian Diaspora abroad and its continued, generous support.

Azerbaijan records exceptionally high real GDP growth and a significant improvement in its external position due to a steep increase in oil revenues. The non-oil economy, however, is feeling the pressure of structural rigidities and a loss of competitiveness, due to the first signs of "Dutch disease". The additional revenues enable the State to extend quality and outreach of some public services, mainly infrastructure, to the benefit of the population throughout the country, but fast-growing government spending shows its toll in a rising inflation. Maintaining macroeconomic stability and increasing sectoral diversification remain the most important challenges in Azerbaijan. Governmental structures experience difficulties in implementing

the fast-growing programmes and, as a result, the absorption capacity for externally-funded operations rapidly decreases. The management of budgetary processes and public procurement therefore becomes increasingly opportunity-driven. This is particularly a source of concern as the oil revenues will, in the course of the next decades, based on current forecasts, come to an end. The Azerbaijani economy will have to be stabilised by then if major difficulties are to be avoided.

In **Georgia**, the lack of maturity of State institutions on central and district level and the strong focus of government policies on issues of territorial integration and security (with 25% of the State budget devoted to defence) are a liability for social development and constructive relations with the Russian Federation. This powerful neighbouring country does not support Georgia's willingness to integrate Euro-Atlantic structures (in particular, NATO) and the relation between the two countries has become more and more difficult over the last years. The most important development challenge in Georgia is rural poverty: according to available figures, poverty tends to persist in Georgia, while it is decreasing in the other two countries. Georgia receives good ranking in terms of business environment, but this hardly translates, for the time being, into a measurable increase in economic power for the rural population, among it a significant part of the 250,000 poorly integrated IDPs, and members of other ethnic minorities from the region.

2 Past Cooperation in the South Caucasus

2.1 Cooperation Strategy for 2002–2006

The Swiss cooperation with the South Caucasus region dates back to the devastating earthquake of 1988 in the North of Armenia and again became very active during the territorial conflicts of 1991–1994 (Abkhazia, South Ossetia, Nagorno-Karabakh), which produced around 1.5 million IDPs and refugees. A regional cooperation office was established in 1999 and the first cooperation strategy was designed in 2002.

The Cooperation Strategy South Caucasus 2002–2006 (extended through 2007) was elaborated at a time when the international community was paying increasing attention to the dramatic socio-economic situation in the South Caucasus. In early 2002, there was reasonable optimism for an impending, peaceful resolution of the territorial conflicts, and the Strategy was designed so as to foster regional cooperation and to support regional economic development. The underlying developmental impact hypothesis was that regional cooperation should initially be fostered through civil society in the three countries. This would pave the way for more formal relations once the conflicts had been settled. As various other donors have done, Switzerland opted for a regional cooperation programme with a main office in Tbilisi.

The Cooperation Strategy 2002–2006 pursued the following three-fold overall goals: (1) to prevent further economic, social and institutional decline; (2) to foster inter-state and intra-state cooperation; and (3) to promote integration into international networks and the global economy.

Three domains of cooperation were identified for SDC: *Good Governance Practices*, *Natural Resource Management*, and *Disaster Response* (the latter including both preparedness and prevention, and the support to IDPs and the most vulnerable persons). SECO decided to focus its financial cooperation on Azerbaijan (a member of the Swiss-led voting group at the Bretton Woods Institutions) and to intervene in the fields of *Infrastructure Financing*, *Macroeconomic Assistance*, *Investment Promotion* and *Trade*. Disbursements of SDC amounted to some 135 million CHF for the period 1994–2006, and SECO disbursed a total of some 22 million CHF between 2002 and 2006.

2.2 Results and Lessons Learned

Regional approach

The most important lesson from the period 2002–2006 is that inter-state cooperation within the region has not improved as expected: the territorial conflicts have remained unresolved and tensions have even increased. The impact hypothesis formulated at the outset of programme implementation – successful cooperation among civil societies would ease the development of formal relations among the countries – has not materialised. This was already recognised at the time of the mid-term review of 2004 and implementation was progressively reoriented from its initial regional focus to a more national focus, where it lies today. At the same time, the regional management set up has proven to be cost effective and instrumental for coherent programme development.

Governance practices

This domain has suffered the most from the trend described above. The portfolio consisted of a range of quite different projects: various partners and topics were to be tested in order to identify the most promising niche in a very sensitive, conflict-fearing context. While bringing promising results at individual-project level, these various collaborations with civil society, artists, and opinion leaders were insufficient: without a conducive, strong, regional dynamic, the individual projects remained isolated and a more programmatic approach for fostering good governance at regional level remained impossible.

Natural resource management

This domain had two components. A first sub-domain of environmental issues as a means to foster inter-state cooperation failed to a large extent, as it was not endorsed by the national authorities. The second sub-domain of income generating activities in remote rural areas proved to be appropriate and received high appreciation from all stakeholders, as shown by the mid-term review of 2004. It was decided to focus on this sub-domain while addressing a weakness highlighted by the mid-term review:

The projects were shown to concentrate too narrowly on production and lacked appropriate consideration on how to integrate enterprises within an enhanced, wider market system. Consequently, a backstopping mandate was given to the Springfield Centre for Business in Development (UK) with two goals: to further improve the understanding of market development tools by staff of SDC and partner organisations; and to provide concrete advice in market-oriented project implementation to two projects. The backstopping has shown promising results in building capacities and improving the effectiveness of the backstopped projects.

Disaster risk reduction

Despite numerous efforts of the international community to pursue a more structured support in the field of Disaster Risk Reduction (DRR), various activities and programmes in the region still appear to be fragmented. However, the results achieved within the activities on strengthening disaster response capacities in Armenia and Georgia are considered as good entry points for further commitments including disaster prevention activities. The conditions, gaps and needs outlined in the DRR Programme for 2006–2009 are still valid today. The recently approved Georgian Law on Protecting the Population and Territory from Natural and Man-made Emergency Situations, and a strong need to support the decentralisation of response capacities in Georgia are new developments that need to be considered.

Support to IDPs, refugees and the most vulnerable population

Due to the remaining high number of conflict-affected populations in the South Caucasus, protracted humanitarian relief activities in Georgia and Azerbaijan concerning shelter rehabilitation and, decreasingly, food aid are still necessary. In Western Georgia, humanitarian activities based on the internationally adopted *Strategic Directions Promoting Confidence-Building for Displaced and War-Affected Persons in Abkhazia* and implemented on both sides of the Abkhazia conflict have shown a considerable





potential for the promotion of peace and stability. In Armenia, the naturalisation programme for Nagorno-Karabakh refugees has almost completely solved the permanent shelter needs. The recently approved Georgian State IDP Strategy, developed with considerable SDC support, is considered by the international community, civil society and IDPs themselves to be a guiding framework for all the stakeholders (including the Government) in better targeting and designing programmes for IDPs. Emphasis on the closure of collective centres determines the move from emergency rehabilitation towards more durable tailor-made housing solutions, and thus validates the approach adopted by SDC at project level. Within the Strategy framework, cooperation with municipalities to initiate pilot projects on affordable housing has gained special significance.

Financial cooperation

The rather diverse SECO portfolio in Azerbaijan over the period 2002–2006 has been dominated by regional infrastructure financing. While the related operations have individually been deemed successful, it rapidly appeared that grant financing of social infrastructure in a country with soaring revenues from fossil-fuel extraction could no longer be justified. Besides, the rapid policy changes in related fields have made it difficult to ensure sustainability of the interventions. Some very positive experiences have been made in private sector development and macroeconomic support, in particular because partners have shown considerable competence and motivation. Overall, SECO's experience shows that more efforts should be deployed to coordinate the interventions with the other donors and with the national policies through constant policy dialog. Furthermore, focus on capacity-building activities, and constant and critical monitoring of the governance conditions prevailing in the country have appeared as key conditions to ensure success of the cooperation.

3 Strategic Orientation for 2008–2011

3.1 Rationale for Programme Reorientation

The new Cooperation Strategy 2008–2011 as presented in this document was established on the basis of a thorough analysis of trends in context, priorities of all three Governments, and previous experiences of cooperation. As a result, it pursues the overall objective of *reducing economic disparities, whilst maintaining economic growth and as such supporting the transition process*. It sets a clear focus on selected geographic areas within the three countries, especially rural ones, a concentration on fewer domains of intervention, a new approach for implementing the regional dimension of the programme, and a stronger interaction between humanitarian, technical and financial cooperation.

Political stability as a key public good

Peaceful resolution of the territorial conflicts is the most difficult challenge faced by the three countries for the years to come. Switzerland cannot make a substantial contribution to the resolution processes themselves, but it can contribute to easing the way towards them. The Cooperation Strategy therefore aims at **reducing the socioeconomic disparities** within the three countries by implementing a *Pro Poor Growth*¹ approach. Doing so, the Cooperation Strategy will support the countries' **transition process to market economy** while helping disadvantaged population groups to benefit from economic growth. The Cooperation Strategy will also support the **transition to democratic institutions** while concentrating on local governance conditions and a risk-conscious attitude in developing interventions. With this Cooperation Strategy, SDC and SECO will contribute to preserving political stability – a very important public good currently at threat – in this region.

Fewer domains of interventions

The Cooperation Strategy 2002–2006 was defined by a broad range of interventions, areas, and activities. This was appropriate given both the relative newness of Swiss cooperation in the region, and the need to define where the most value could be added. This new Cooperation Strategy makes choices based on a reflection of experience and assessment of opportunity, and it is more proactive and cohesive as a result. Based on a thorough portfolio assessment conducted in early 2007, fewer and better-defined domains of intervention have been selected for the period 2008 to 2011: *Recovery and Reconstruction; Economic Development and Employment; and Macroeconomic Policy Support*. These domains are consistent with national priorities, as defined in the respective strategic frameworks for each country, consistent with the comparative advantage of Swiss cooperation (as shown by previous experience), and aligned according to the Paris Declaration criteria² on donor harmonisation.

Regional challenges – national implementation

On the basis of the experiences of the previous years, the Cooperation Strategy continues to address the South Caucasus as a region – and to tackle issues that are common to all three countries – but implementation has now adopted a clear national focus. The regional dimension of the programme consists therefore of a similarity of *approaches, domains of interventions, implementation tools, thematic expertise and networks for exchange of experiences*. As in their *Cooperation Strategy for Central Asia*, SDC and SECO have designed their interventions in the South Caucasus so as to *address regional challenges while focussing on national implementation*. The regional management structure continues to make an instrumental contribution to this end.

¹ «Rapid and sustained poverty reduction requires pro-poor growth, i.e. a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to, and benefit from growth.» OECD, Policy Statement, 2006.

² The Paris Declaration was signed in 2005 and aims at reinforcing alignment and harmonisation mechanisms among multilateral and bilateral donor agencies for increasing the effectiveness of their interventions. Best practices and assessment criteria have been defined on how to reach this goal.

Focus on selected geographic areas within the three countries

In order to increase the impact of the activities funded, the new Cooperation Strategy focuses on selected geographic areas within the three countries. The selection was made on the basis, first, of a needs assessments and national priorities in response to these, and second, of ongoing and planned complementarily interventions by other actors, both public and private (see Annexes 1 to 3). Within Armenia, interventions concentrate on the Southern district of Syunik and, for some activities of humanitarian assistance, on Yerevan and other parts of the country. In Georgia, activities cover the mountainous regions of Racha-Lechkhumi and Samtskhe-Javakheti, the capital Tbilisi, as well as humanitarian interventions in the Abkhazian and South Ossetian conflict areas. In Azerbaijan, projects of technical cooperation are implemented in the IDP-prone Southern region of Aghdam-Agjabedi-Fizuli as well as in the exclave of Nakhichevan, while activities of financial cooperation target Baku and various parts of the country.

Higher integration of instruments

During the 1990s, Swiss interventions were limited to humanitarian assistance. From 2002 onward, all three instruments of Swiss cooperation (humanitarian assistance, technical cooperation, and financial cooperation) have become active and synergies have been established. For 2008 – 2011, an even higher integration is needed and the domains of interventions are defined along common objectives. Humanitarian assistance focuses on Georgia and Armenia and financial cooperation on Azerbaijan. Technical cooperation is active in all three countries, with special attention to Georgia and Armenia, which do not have oil incomes as Azerbaijan. The mode of integration of the three instruments will therefore depend on domains and countries.

3.2 Objectives and Domains of Intervention

The overall goal of the Cooperation Strategy for the South Caucasus 2008 – 2011 is *to contribute to poverty alleviation and to support the transition process to market economies and democratic institutions in Armenia, Azerbaijan and Georgia.*

After consultation with the three Governments and taking their comparative advantage, respectively their past experiences in the region, into consideration, SDC and SECO want to be active in three main domains of cooperation: *Recovery and Reconstruction, Economic Development and Employment* and *Macroeconomic Policy Support*. These three domains have been designed so as to constitute an appropriate response to the challenges and needs identified by the three Governments in their respective strategies, like economic development programmes, poverty reduction actions plans, and special efforts to reach the Millennium Development Goals. The Cooperation Strategy is furthermore aligned with the interventions of the international community (e.g. Country Partnership Strategies with World Bank, Euro-

pean Neighbourhood Action Plans and the programmes of the UN Organisations).

The first domain *Recovery and Reconstruction* will be implemented by SDC's Humanitarian Aid Department only, mostly in Armenia and Georgia, as shown in the table below.

The second domain *Economic Development and Employment* shows the highest level of integration of the various instruments of Swiss cooperation and will operate in all three countries.

The third domain *Macroeconomic Policy Support* is limited to Azerbaijan and is led by SECO.

The implementation in each domain will be concentrated in selected geographic areas. However, policy dialogue components, cooperation with national bodies, and efforts to mainstream regional producers into greater opportunities presented by national market systems will require interventions in capitals and other main cities.



Recovery and Reconstruction	Economic Development and Employment	Macroeconomic Policy Support
Armenia & Georgia	Armenia, Georgia, Azerbaijan	Azerbaijan
SDC Humanitarian Aid	SDC Humanitarian Aid & Technical Cooperation and SECO	SECO
Objective		
Armenia and Georgia have improved response capacities to disaster risks and increased the capability to ensure social protection for the most vulnerable and disadvantaged population, including conflict-affected persons	A conducive and risk-conscious business environment has been created, leading to improvement and diversification of the income base in selected rural districts (in the three countries) and in urban areas (in Azerbaijan)	Transparency, efficiency and sustainability of fiscal processes and macroeconomic policies in Azerbaijan have improved
Outcomes		
<ul style="list-style-type: none"> * The Georgian government has adopted a social protection strategy for the most vulnerable population, including IDPs * The South Caucasian Governments have taken more responsibility over the most vulnerable segments of their population, in particular the conflict-affected people * In Georgia and Armenia, principles of disaster risk reduction with emphasis on the response capacities are applied at national and local levels 	<ul style="list-style-type: none"> * Farmers and rural entrepreneurs acquire the knowledge and capacities to make more informed and efficient use of resources and market channels * Principles of disaster risk reduction with emphasis on prevention and reduction of vulnerability are applied at local level * The interaction between target groups and local self-government is enhanced through institutional capacity building and participatory decision-making * In Azerbaijan, improved framework conditions for trade and investment and a strengthened financial market infrastructure lead to a diversified growth in the SME sector 	<ul style="list-style-type: none"> * The government regularly discloses progress in its public finance management practices using internationally recognized reporting standards * Economic modelling tools are developed and used in designated Government agencies in a coordinated manner * Advice and analysis are made available for high level policy-makers at the National Bank of Azerbaijan, the Ministry of Finance and other relevant national institutions
Lines of activities		
<ul style="list-style-type: none"> * Sustainable social housing model projects targeting vulnerable, conflict affected and displaced population * Projects strengthening institutions, mechanisms and capacities to build resilience to disaster risks * Protracted relief projects for IDPs and most vulnerable population in alignment with the national social assistance programmes (exit strategy) * Balanced support to most vulnerable population between Abkhazia and Western Georgia 	<ul style="list-style-type: none"> * Market-based rural income generation projects * Integrated Disaster Risk Reduction measures in market-based rural income generation projects * Reinforcing measures in the field of local governance * Community-based rehabilitation of traditional water supply infrastructure (Azerbaijan) * Development of postal financial services (Azerbaijan) * Co-financing activities in the field of leasing market, mortgage market, corporate governance, enforcement of intellectual property rights (Azerbaijan) 	<ul style="list-style-type: none"> * Policy assistance to the National Bank of Azerbaijan in the fields of general research, including econometrics, financial programming * Public Expenditure and Financial Accountability assessment follow up * Support to government securities-market development * Development of a financial programming modelling tool * Possible initiatives for improving priority settings of public investments
Crosscutting themes		
Mainstreaming of a gender-balanced implementation of programmes and projects		
Mainstreaming of principles of good governance (accountability, transparency, non-discrimination, participation, efficiency) in the implementation of programmes and projects		

See Programme Planning Matrix in Annex 4 for expected outcomes, indicators and sources of verification.

3.3 Principles of Cooperation

Principles of good governance

Governance as a sector will no longer exist. However, it will be of utmost importance to integrate governance principles (accountability, transparency, efficiency, non-discrimination, participation) into the entire portfolio, as a way to enhance the likely impact of each sector programmes. A gradual and pragmatic approach will be chosen. In rural economic development programmes, the mainstreaming of governance dimensions will translate into a better integration of how to work with local authorities, how to make them more helpful and service-oriented towards local economic actors, and how to make them assume their roles in terms of economic promotion and development. In other sectors such as humanitarian aid, governance issues will be looked at on a case-by-case basis, with a view to further improving the situation of specific population groups and paving the way to sustainable contiguous strategies. The monitoring of key governance features in specific programmes will be done on a regular basis so as to assess the potential achievements of this mainstreaming methodology.

Gender mainstreaming

SDC's experience shows that Gender balance contributes positively to economic and institutional stabilization, non-discrimination, and equality in the South Caucasus. Aims, principles and approaches of the SDC Gender Policy will therefore be further mainstreamed in SDC-funded interventions and the progresses will be monitored. The projects and programmes will be designed according to a sex-disaggregated baseline and promote equal opportunities. Gender-specific actions might also be considered as a complementary option if needed. Gender information and indicators will be integrated into the project cycle management. Last but not least, gender competence of staff from SDC and partner organisations will be enhanced through training and cooperation with gender experts. Sufficient resources will be provided for this institutional and operational mainstreaming.

Market development approach

Interventions and analysis in the Economic Development and Employment domain will be guided by a market development approach. By doing so, the programme will focus on interventions allowing the beneficiary groups to integrate into existing or potential markets. In addressing market forces in a systemic manner for the integration of poorer groups, especially in rural communities, the approach strives for increased sustainability and higher leverage of the interventions. Under the present Strategy, the market development approach is understood as an application of the "make markets work for the poor" paradigm and the principle of "pro poor growth" as advocated by the international community. In concrete terms, projects in the Economic Development and Employment domain will translate in support to agricultural value chains in selected geographic areas. Such projects will primarily target farmer families, enabling them to develop from subsistence producers to market-oriented, small entrepreneurs. Projects will refrain from introducing measures susceptible to distorting the market but, at the same time, will adopt a sufficiently comprehensive approach so as to bring all main actors in the concerned value chains to play their specific role in a sustained manner.

Disaster risk consciousness in project design

Due to the high disaster risk exposure of the South Caucasus, Disaster Risk Reduction remains a priority topic for SDC in its new Strategy. SDC is contributing actively towards the implementation of the *Hyogo Framework for Action 2005–2015*, a 10-year plan aimed at substantially reducing human and economic losses due to natural disasters. The *Hyogo Framework* indicates how Disaster Risk Reduction can be integrated into broader development policies and programmes. SDC has formulated its own *Guidelines on Disaster Risk Reduction* in order to stress the link between Disaster Risk Reduction and development. Georgia has been selected as a pilot country to test the implementation of the guidelines. As a result, SDC's humanitarian aid and technical cooperation undertake syner-

getic efforts towards a systematic and effective integration of disaster risk consideration at all policy and planning levels, with emphasis on prevention, preparedness and response.

Human Rights policy

The provisions of the *Human-Rights-Based Approach* as adopted in SDC's *Human Rights Policy* (2006) are reflected, for instance, by the strong focus on the rights and well-being of the IDPs (humanitarian operations and policy interventions in Georgia and Armenia; development projects in Azerbaijan). Within the Economic Development and Employment projects, Human Rights concerns will be addressed by targeting both sides of the "governance equation", i.e. rights-holders and duty-bearers, in parallel.

Selection of partners and aid modalities

Selection of partners and application of instruments depend on opportunities and risks in the proposed domains of intervention. An increase in harmonized and aligned programme-based activities with higher responsibility of government partners is foreseen, provided coordination by countries becomes more effective. To retain the necessary flexibility for strategic programme steering, a mix of harmonized/co-financed and bilateral activities is targeted. In case of a deterioration in the development context, the option to revert to bilateral, project-based activities and non-governmental partners might be considered.

Harmonisation & alignment

The Cooperation Strategy is fully in line with national priorities such as poverty reduction programmes and action plans and efforts to reach the Millennium Development Goals. It is furthermore aligned with the interventions of main international actors according to the Paris Declaration, e.g. the World Bank's Country Partnership Strategies, the European Neighbourhood Policy (ENP) Action Plans, and the various programmes of the UN agencies.

Conflict sensitivity

The unresolved and potential conflict lines within and among the societies of the South Caucasus are addressed through the selection of the domains of intervention (e.g., increase and diversification of incomes for vulnerable groups of population in order to reduce socio-economic disparities), as well as through a conflict sensitive implementation approach. Furthermore, mainstreaming of the cross-cutting themes will warrant a socio-differentiated implementation and therefore contribute to improving the reconciliation processes. "Do no harm" assessments are conducted at domain or project level in selected cases.

Migration issues

The three countries are characterised by emigration rates which reached their maximum after the territorial conflicts of the nineties, but still remain substantial more than ten years later. The main cause for emigration was and still is the lack of economic opportunities at home. For many families, remittances from relatives working abroad are the main source of income. The most preferred destinations for emigrants are the Russian Federation, Turkey, the Arab Emirates, Greece, Italy, Poland, and the Czech Republic. As many immigrants in these countries are looking for job opportunities without holding valid visas, they are prone to suffer from a range of problems, one of which is to fall victim to human trafficking and smuggling. For example, in Georgia alone, the International Office for Migration estimates that 500 persons are concerned each year. Even if Switzerland is not directly concerned with these migration issues, the Federal Office for Migration has signed agreements with Armenia and Georgia and is in dialogue with Azerbaijan. On the basis of these agreements, projects in favour of the socio-economic re-integration of returnees are implemented in the region under the supervision of SDC.

3.4 Risks and scenarios



As in various other regions/countries in which Switzerland is supporting transition processes, the political and socio-economic context in the South Caucasus is quite volatile and its evolution over the next years cannot be predicted with high probability. A thorough analysis of this context and of the factors considered as being major potential triggering factors (mainly the state of the unresolved conflicts) for context evolution was conducted in 2007. Based on the results of this analysis, a *standard (most likely) scenario for the context evolution* has been developed. The context analysis furthermore provided crucial elements for the formulation of the most predictable deviations from the standard scenario and for the identification of the most suitable indicators. Standard scenario and highly sensitive indicators will be used by SDC and SECO staff to make timely decisions if major deviations from the expected context evo-

lution occur. Deviations from the standard scenario are understood here both in the directions of better (peaceful resolution of one or more conflicts) and less good (resumption of one or more conflicts) context evolution.

While the selection of domains of intervention and formulation of objectives are independent from the context evolution, the expected outcomes and lines of action for each domain, along with their ranking in terms of priority, very much depend on it. The humanitarian situation (possible return of refugees and IDPs or new waves of migration) is particularly important in this respect. For example, should the conflict over Nagorno-Karabakh be resolved in the near future, the lines of actions in domains one and two would be re-oriented into the direction of support to returnees.

4 Resources

4.1 Financial means

The annual allocation of financial and human resources for technical and humanitarian cooperation in South Caucasus is planned to stay at current levels. The CIS Division will earmark CHF 8 million, Humanitarian Assistance CHF 5-6 million per annum.

SECO plans to commit some CHF 6 million per year for cooperation with Azerbaijan. The table below shows target values for the financial planning per country and domain.

	Armenia	Georgia	Azerbaijan	Total
<i>Domain 1</i> Recovery & Rehabilitation	5%	15%	1%	21%
<i>Domain 2</i> Economic Development & Incomes	13%	17%	30%	60%
<i>Domain 3</i> Macroeconomic Policy Support			7%	7%
Crosscutting themes	1%	1%	1%	3%
Cooperation offices	3%	3%	3%	9%
Total	22%	36%	42%	100%

4.2 Human resources

As stipulated in the recently adopted *Federal Law on Cooperation with the Countries of Eastern Europe and the CIS*, cooperation in the South Caucasus is implemented as a regional programme under the supervision of a regional Cooperation Office located in Tbilisi and two sub-offices in Baku and Yerevan. The main office in Tbilisi and the sub-office in Yerevan relate for diplomatic purposes to the Swiss Embassy in Tbilisi, according to the current accreditation status. The sub-office in Azerbaijan relates for diplomatic purposes to the Swiss Embassy to be opened in this country in 2008.

Swiss staff consists of a Regional Director, a Deputy Regional Director and an Assistant

Regional Director, two of them resident in Tbilisi and one in Baku.

While the Director and his/her Deputy assume the overall responsibility for the whole programme, the Assistant Director focuses mainly on humanitarian aid.

Eight national programme officers, a chief financial officer, and administrative/logistic staff complete the team. An international programme officer for disaster risk reduction issues, eight national programme officers, a chief of finance and administration, and administrative and logistic staff complete the team.

4.3 Monitoring and Management of Strategy Implementation

Monitoring related to the present Cooperation Strategy will be conducted on a yearly basis as a part of the Annual Planning process and include the following elements:

a) General development context will be monitored against the most important factors identified during the context analysis and the identification of the most likely scenario, structured along the standard SDC tool for context monitoring¹ (MERV);

b) Outcomes and impact will be assessed per domain of intervention based on selected indicators as presented in the matrix of Annex 4, taking advantage of external reviews or evaluation mandated in the course of the project cycle management. While Annex 4 will serve as the

main reference framework for the four years of validity of the Cooperation Strategy, concrete figures will be introduced for each year of operations at the time of the annual planning in October;

c) At projects/programmes level, outcome (and to the possible extent, impact) assessments will occur against baselines established at the inception of their implementation;

d) Programme implementation, including performance of the Cooperation Office, will be monitored according to standard practice;

e) Implementation of the Paris Agenda and the MDG/PRS process as well as success of policy dialogue will be assessed in qualitative terms.

¹ Reference is made here to the tool named *Monitoring of development relevant context* (MERV)



Annex I

Geographic Areas of Intervention in the Recovery and Reconstruction Domain



Geographic Areas of Humanitarian Aid Interventions

- 1** Domain 1: R & R
Protracted relief to MV & IDPs
- 2** Domain 1: R & R
DRR rescue capacities
- 3** Domain 1: R & R
Social housing models
- 4** Domain 1: R & R
Protracted relief to IDPs & refugees
- 5** Domain 2: ED & I
Integrated DRR

Annex II

Geographic Areas of Intervention in the Economic Development and Employment Domain



Geographic Areas of Concentration for Interventions in the Economic Development and Incomes Domain

- 1 Georgia Area 1
Tsagen, Ambrolaun
- 2 Georgia Area 2
Bakuriani, Aspindza
- 3 Nakhichevan
Azerbaijan
- 4 Armenia
Sissian, Goris
- 5 Azerbaijan
Aghdani, Agiabedi, Beytegan, Fizuli

Annex III

Geographic Areas of Intervention in the Macroeconomic Policy Support Domain



Annex IV

Programme Planning Matrix (Objectives and Expected Outcomes) per Domain of Intervention

Narrative Summary	Measurable Indicators	Means of verification
<p>Overall goal to contribute to poverty alleviation and to support the transition to market economy and democratic institutions in Armenia, Azerbaijan and Georgia</p>	<p>a) Poverty level (disaggregated by country, region, gender, sector) b) Level of FDI (disaggregated by country, sector (AZ: only non-oil sectors)) c) Inflation rate (disaggregated by country) d) Level of trade with Western European countries (disaggregated by country) e) % decentralization (disaggregated by country)</p>	<p>a) PRSP secretariats; household surveys; IFIs reports b) Statistics from Ministries of Economic Development c) Statistics from central banks d) Statistics from Ministries of Economic Development e) Reports from international organizations, INGOs</p>
<p>Objective 1: Recovery & Reconstruction Armenia, Georgia (& Azerbaijan) have improved response capacities to disaster risks and increased the capability to ensure social protection for the most vulnerable and disadvantaged population</p>	<p>a) Growth in employment (disaggregated by country, region, gender, sector) b) Decrease in poverty level (disaggregated by country, region, gender, sector)</p>	<p>a) PRSP secretariats; household surveys; IFIs reports b) PRSP secretariats; household surveys; IFIs reports</p>
<p>Objective 2: Economic Development and Employment A conducive and risk conscious business environment has been created and the income base has improved and diversified in selected areas</p>	<p>a) Growth in employment (disaggregated by country, region, gender, sector) b) Decrease in poverty level (disaggregated by country, region, gender, sector) c) Number of newly established SMEs (disaggregated by country, region, sector) d) Total tax base (disaggregated by country, region, sector)</p>	<p>a) PRSP secretariats; household surveys; IFIs reports b) PRSP secretariats; household surveys; IFIs reports c) Statistics from Ministries of Economic Development d) Statistics from Ministries of Taxes</p>
<p>Objective 3: Public Finance Transparency, efficiency and sustainability of fiscal processes and macroeconomic policies in Azerbaijan have improved</p>	<p>a) General macroeconomic stability (inflation, growth, employment, poverty levels under control) b) General public satisfaction towards Government's handling of PFM issues</p>	<p>a) National accounts of macroeconomic performance; IFIs reports; periodic poverty assessments b) Media, general public debate</p>
<p>Objective 1: Recovery & Reconstruction Armenia, Georgia (& Azerbaijan) have improved response capacities to disaster risks and increased the capability to ensure social protection for the most vulnerable and disadvantaged population</p>	<p>a) Growth in employment (disaggregated by country, region, gender, sector) b) Decrease in poverty level (disaggregated by country, region, gender, sector)</p>	<p>a) PRSP secretariats; household surveys; IFIs reports b) PRSP secretariats; household surveys; IFIs reports</p>
<p>Expected Outcome 1.1 Georgian Gov. has adopted a social protection strategy for the most vulnerable population, including IDPs</p>	<p>a) Decrease in poverty level (disaggregated by country, region, gender, sector) b) implementation of concrete actions according to action plans</p>	<p>a) Approval of strategies and actions plans by authorities b) PRSP secretariats; household surveys; IFIs reports</p>
<p>Expected Outcome 1.2 The South Caucasian Governments have taken more responsibility over the most vulnerable segment of their population, in particular the conflict-affected people</p>	<p>a) Decrease in poverty level (disaggregated by country, region, gender, sector) b) implementation of concrete actions according to action plans</p>	<p>a) PRSP secretariats; household surveys; IFIs reports</p>
<p>Expected Outcome 1.3 In Georgia and Armenia, principles of disaster risk reduction with emphasis and the response capacities are applied at national and local levels</p>	<p>a) Number of accidents, number of rescued persons b) statistics on natural disaster damage c) implementation of concrete actions according to action plans</p>	<p>a) Approval of strategies & action plans by authorities b) Rescue services statistics</p>
<p>Objective 2: Economic Development and Employment A conducive and risk conscious business environment has been created and the income base has improved and diversified in selected rural districts (in the three countries) and in urban areas (in Azerbaijan)</p>	<p>a) Growth in employment (disaggregated by country, region, gender, sector) b) Poverty level (disaggregated by country, region, gender, sector) c) Number of newly established SMEs (disaggregated by country, region, sector) d) Total tax base (disaggregated by country, region, sector)</p>	<p>a) PRSP secretariats; household surveys; IFIs reports b) PRSP secretariats; household surveys; IFIs reports c) Statistics from Ministries of Economic Development d) Statistics from Ministries of Taxes</p>

Annex IV

Programme Planning Matrix (Objectives and Expected Outcomes) per Domain of Intervention (cont.)

Narrative Summary	Measurable Indicators	Means of verification
<p>Expected Outcome 2.1 In Azerbaijan, improved framework conditions for trade and investment, and strengthened financial market infrastructure lead to diversified growth in the SME sector</p>	<ul style="list-style-type: none"> a) Total volume of leased assets in the non-oil sector b) Number of mortgage concluded by commercial banks c) Number of non-oil joint stock companies listed at the Baku Stock Exchange d) Number of transactions on non-oil corporate bonds and stocks at the Baku Stock Exchange e) Swiss supported legislation has been approved by parliament f) WTO accession negotiation is moving in the right direction g) Number of postal financial transactions outside of Baku 	<ul style="list-style-type: none"> a) IFC data b) Data from Azerbaijan Mortgage Fund c) BSE reports d) BSE reports e) Official media; project reports f) WTO secretariat in Geneva g) AzerPost reports; project reports
<p>Expected Outcome 2.2 Farmers and rural entrepreneurs acquire knowledge and capacities enabling them to make more informed and efficient use of market channels</p>	<ul style="list-style-type: none"> a) Average income from agricultural activities in the targeted districts b) Number of microfinance transactions in the targeted districts c) Number of SMEs and independent specialists in agricultural support activities (input and service providers) in the targeted districts d) Turnover generated out of trading of national products in designated, large market centres in the targeted districts 	<ul style="list-style-type: none"> a) Project surveys or impact assessments; statistics from the Ministries of Economic Development b) National microfinance associations; data from central banks c) Project surveys or impact assessments; statistics from the Ministries of Economic Development d) Project surveys or impact assessments; local statistics
<p>Expected Outcome 2.3 Principles of disaster risk reduction with emphasis on prevention and reduction of vulnerability are applied at local level</p>	<ul style="list-style-type: none"> a) Decrease of damage in comparison to statistics 	<ul style="list-style-type: none"> a) damage assessments after natural disasters
<p>Objective 3: Macroeconomic Policy Support Transparency, efficiency and sustainability of fiscal processes and macroeconomic policies in Azerbaijan have improved</p>	<ul style="list-style-type: none"> a) General macroeconomic stability (inflation, growth, employment, poverty levels under control) b) General public satisfaction towards Government's handling of PFM issues 	<ul style="list-style-type: none"> a) National accounts of macroeconomic performance; IFIs reports; periodic poverty assessments b) Media, general public debate
<p>Expected Outcome 3.1 The Government regularly discloses progress in its public finance management practices using internationally recognized reporting standards</p>	<ul style="list-style-type: none"> a) PEFA assessments published every three years b) Budget presented to Parliament and made public every year c) Enhanced quality of budget documents d) Progress depicted by independent reviews by local NGOs (e.g. ERC) 	<ul style="list-style-type: none"> a) PEFA reports according to standards b) Budget documents; media; transcripts of Parliament discussions c) IFIs reviews of budget documents d) NGOs review reports
<p>Expected Outcome 3.2 Economic modelling tools are developed and used in designated Government agencies in a coordinated manner</p>	<ul style="list-style-type: none"> a) Tools selected and introduced in designated agencies b) Number of officials trained to use tools c) Accuracy of macroeconomic modelling (forecasted vs. actual parameters, i.e. GDP growth, CIP inflation) d) Amount of sterilized income e) Number of coordination meetings among designated agencies 	<ul style="list-style-type: none"> a) WB, IMF, consultants reports b) WB, IMF, consultants reports c) IMF reports d) NBA, MoF data; IMF reports e) Official meetings transcripts
<p>Expected Outcome 3.3 Advice and analysis are made available for high level policy-makers at the National Bank of Azerbaijan and other relevant national bodies</p>	<ul style="list-style-type: none"> a) Increase in staff capacity b) Staff morale with an increasingly long-term perspective 	<ul style="list-style-type: none"> a) Skill profiles of staff b) Staff turnover

Annex V

Facts and Figures for Armenia



Population*	2006	3.0 mill.	Human Development Index* HDI rank	2005	0.775				
	2015	3.0 mill.		2003	0.759				
	urban	64%		2005	83				
				2003	83				
GDP Nominal**	2006	6.4 bill. \$	Poverty***						
	2005	4.9 bill. \$				Total	2005	30%	
	2004	3.6 bill. \$					2002	49%	
	per capita	2006				2130 \$	Rural	2005	28%
		2002						2002	45%
	2004	12.4 bill. \$				Extreme poverty			
PPP*	2004	4100 \$	Total	2005	5%				
PPP per cap.			Rural	2004	6%				
GDP growth**	2006	13.4%	Gini Incomes***		2005	0.36			
	2005	14.0%							
Inflation**	2006	2.9%	Average wage**		2006	150 \$			
	2005	0.6%					Exchange rate**	1 \$	415 Dram
Sources of GDP**	2005	Agriculture	19%	Vulnerable groups		190'000			
		Industry	19%						
		Construction	22%						
		Other services	40%						
State budget**	2006	Revenue/grants	1.06 bill. \$	ODA****	2006	193 mill. \$			
		Tax revenues	82%				Total	4%	
		Expenditure	1.15 bill. \$				of GDP		
		Defence*****	18%				of Revenues	18%	
		Education	17%						
		Health	9%						
		Social	12%						
		Deficit	0.09 bill. \$						

Sources * UNDP Human Development Reports 2005–2007
 ** EIU Country report February 2007
 *** World Bank publications: CAS for Armenia (2004), CAS Progress Report (2007)
 **** Official data
 ***** OECD

Note Official estimates for the population size are at 3.2 million

Annex V

Facts and Figures for Armenia (cont.)

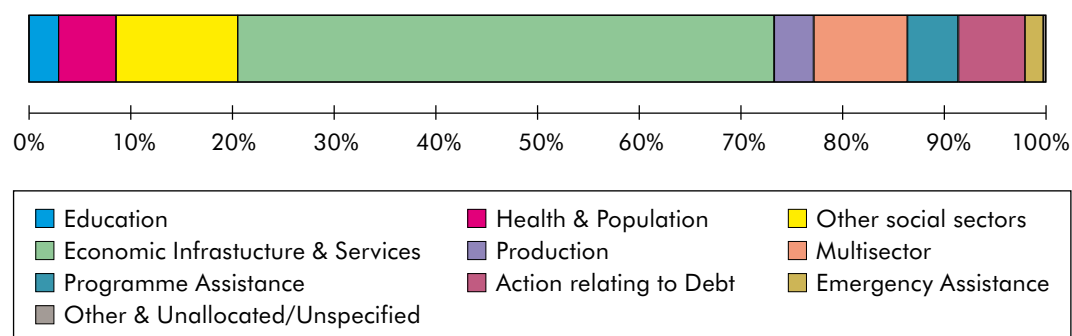
ARMENIA

Receipts	2003	2004	2005
Net ODA (USD million)	249	254	193
Bilateral share (gross ODA)	49%	48%	65%
Net ODA / GNI	8.6%	7.0%	3.9%
Net private flows (USD million)	7.4	0.3	53.6

For reference	2003	2004	2005
Population (million)	3.0	3.0	3.0
GNI per capita (Atlas USD)	950	1140	1470

Top Ten Donors of gross ODA (2004–05 average) (USD m)		
1	United States	65
2	IDA	56
3	EC	26
4	Germany	24
5	SAF & ESAF (IMF)	19
6	France	15
7	Netherlands	10
8	United Kingdom	6
9	Japan	5
10	Norway	4

Bilateral ODA by Sector (2004–05)



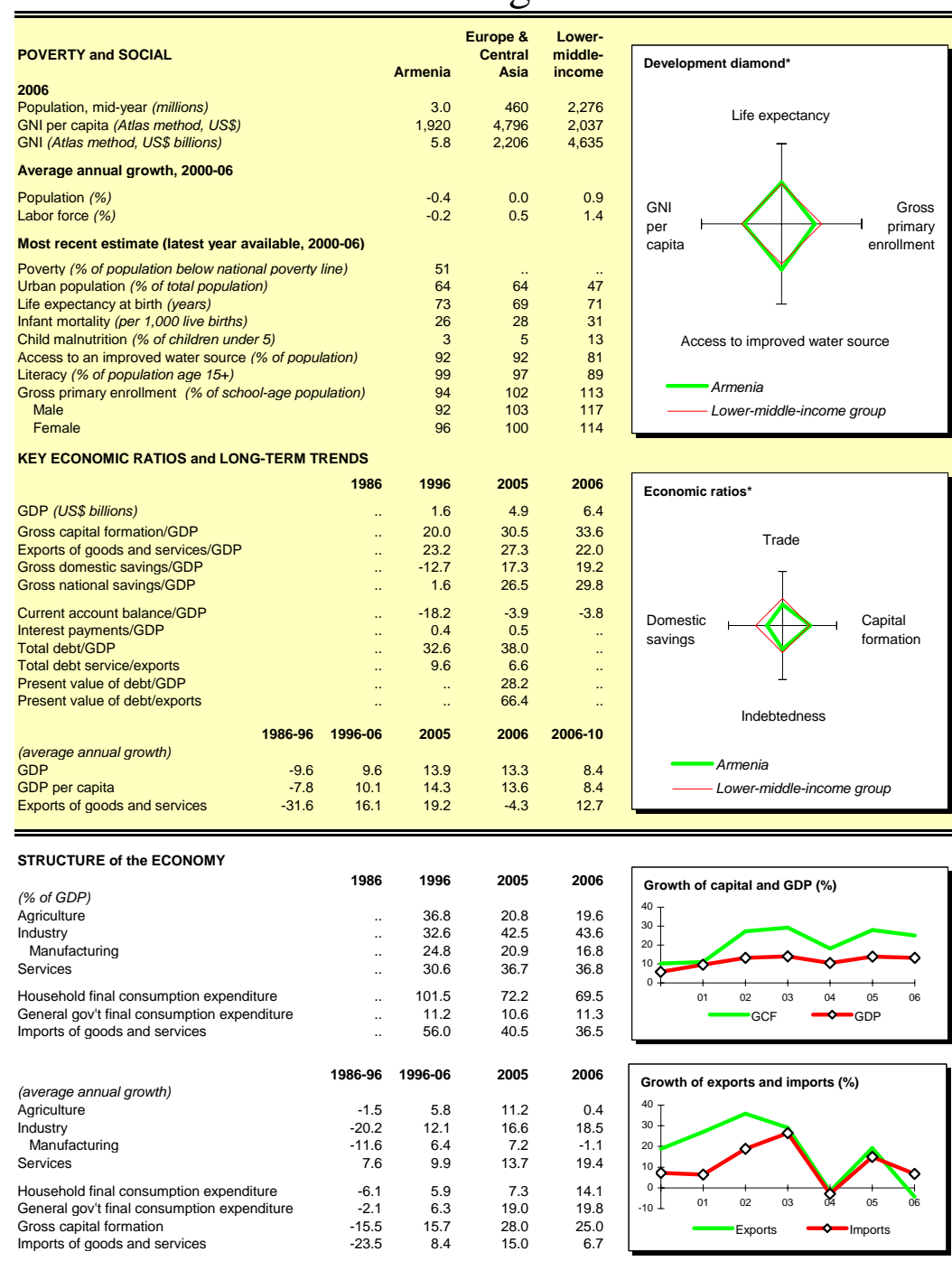
Sources: OECD, World Bank

Annex V

Facts and Figures for Armenia (cont.)

Armenia at a glance

9/28/07



Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Annex VI

Facts and Figures for Azerbaijan



Population*	2006	8.5 mill.	Human Development Index*	2005	0.746
	2015	9.1 mill.	HDI rank	2003	0.729
	Urban	52%		2005	98
				2003	101
GDP Nominal**	2006	19.9 bill. \$	Poverty***		
	2005	12.6 bill. \$	Total	2005	24.0%
	2004	8.7 bill. \$		2002	44.6%
per capita	2006	2340 \$	Rural	2005	26.9%
				2002	43.7%
PPP*	2004	34.5 bill. \$	Extreme poverty		
PPP per cap.	2004	4150 \$	Total	2005	9.2%
			Rural	2005	8.9%
GDP growth**	2006	34.5%	Gini Incomes***	2004	0.19
	2005	26.4%			
Inflation**	2006	8.3%	Average wage**		
	2005	9.6%	Exchange rate**	2006	158 \$
				1 \$:	0.89 Manat
Sources of GDP**			Vulnerable groups		
▪ Agriculture	2006	11%	IDPs****		700'000
▪ Industry		50%	Refugees		250'000
▪ Services		39%			
State budget**			ODA****		
▪ <u>Revenue/grants</u>	2006	4.42 bill. \$	▪ Total	2006	0.01 bill. \$
Tax revenues		48%	▪ of GDP		0.04%
▪ <u>Expenditure</u>		3.80 bill. \$	▪ of Revenues		0.2%
Defence		14%			
Education		13%			
Health		5%			
Social		9%			
▪ <u>Profit</u>		0.62 bill. \$			

Sources * UNDP Human Development Reports 2005–2007

** EIU Country report February 2007

*** World Bank publications: CPS for Azerbaijan (2006)

**** Official data

Note IMF estimates for inflation are at 16%

Official estimates for the poverty rate are at 29%

Annex VI

Facts and Figures for Azerbaijan (cont.)

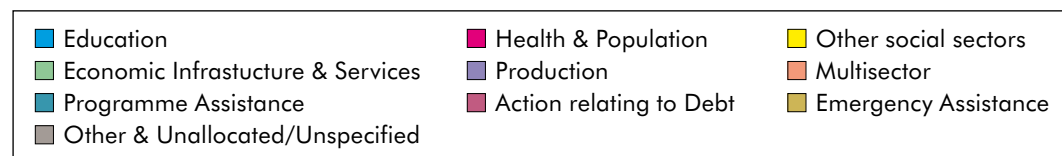
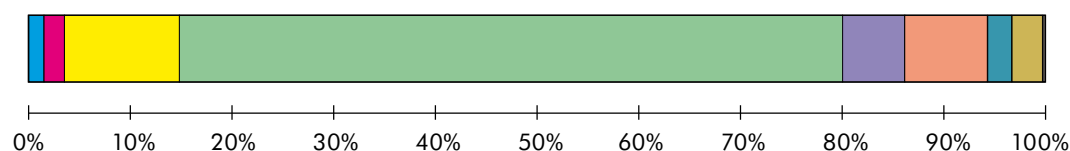
AZERBAIJAN

Receipts	2003	2004	2005
Net ODA (USD million)	301	176	223
Bilateral share (gross ODA)	53%	60%	56%
Net ODA / GNI	4.4%	2.3%	2.0%
Net private flows (USD million)	110	1332	1220

For reference	2003	2004	2005
Population (million)	8.2	8.3	8.4
GNI per capita (Atlas USD)	820	930	1240

Top Ten Donors of gross ODA (2004–05 average) (USD m)		
1	IDA	48
2	United States	46
3	Turkey	26
4	EC	18
5	Germany	18
6	SAF & ESAF (IMF)	10
7	Japan	9
8	France	9
9	Norway	6
10	Switzerland	6

Bilateral ODA by Sector (2004–05)



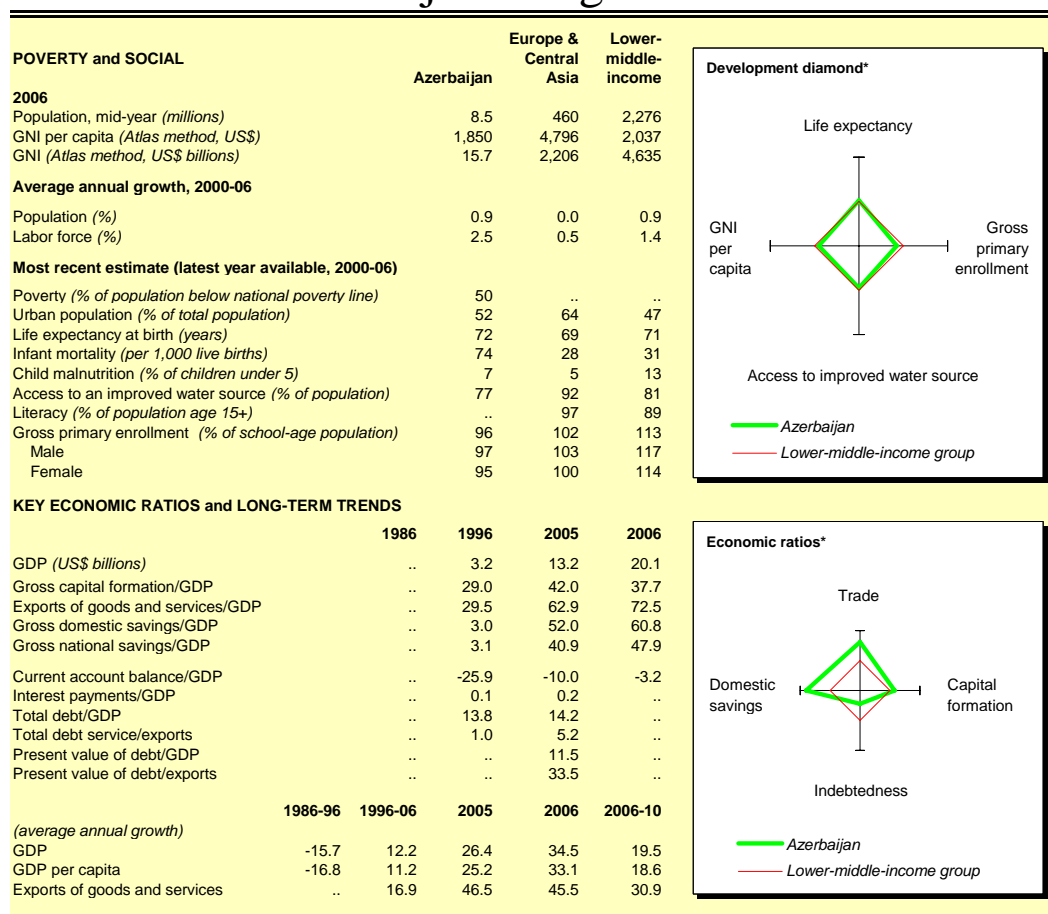
Sources: OECD, World Bank

Annex VI

Facts and Figures for Azerbaijan (cont.)

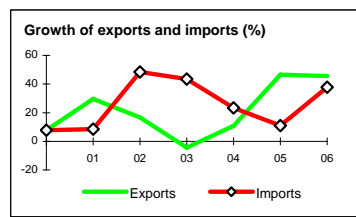
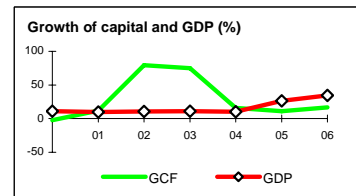
Azerbaijan at a glance

9/28/07



STRUCTURE of the ECONOMY

	1986	1996	2005	2006
(% of GDP)				
Agriculture	..	27.5	10.0	8.6
Industry	..	39.1	62.3	67.0
Manufacturing	..	11.6	7.8	..
Services	..	33.4	27.7	24.5
Household final consumption expenditure	..	85.0	36.3	30.3
General gov't final consumption expenditure	..	12.0	11.6	9.0
Imports of goods and services	..	55.5	52.9	49.5
(average annual growth)				
Agriculture	..	6.9	7.5	6.0
Industry	..	14.1	43.4	31.5
Manufacturing	..	3.9	4.8	..
Services	..	9.3	10.6	11.2
Household final consumption expenditure	..	12.4	11.6	8.9
General gov't final consumption expenditure	..	3.4	0.4	3.9
Gross capital formation	..	28.6	11.2	16.7
Imports of goods and services	..	18.2	10.9	37.7



Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Annex VII

Facts and Figures for Georgia



Population*	2006	4.5 mill.	Human Development Index*	2005	0.754
	2015	4.2 mill.	HDI rank	2003	0.732
	urban	52%		2005	96
				2003	100
GDP Nominal**	2006	7.5 bill. \$	Poverty***		
	2005	6.4 bill. \$	Total	2004	52.3%
	2004	5.1 bill. \$		1996	52.1%
per capita	2006	1670 \$	Rural	2004	53.4%
				1996	46.7%
PPP*	2004	12.8 bill. \$	Extreme poverty		
PPP per cap.	2004	2850 \$	Total	2004	17.4%
			Rural	2004	19.8%
GDP growth**	2006	8.0%	Gini Incomes***	2004	0.45
	2005	9.3%			
Inflation**	2006	9.2%	Average wage**		
	2005	8.2%	Exchange rate**	2006	153 \$
				1 \$	1.81 Lari
Sources of GDP**			Vulnerable groups		
▪ Agriculture		18%			
▪ Industry		27%	IDPs****	2006	245'000
▪ Services		55%			
State budget**			ODA****		
▪ <u>Revenue/grants</u>	2006	2.08 bill. \$	▪ Total	2006	161 mill. \$
Tax revenues		70%	▪ of GDP		2%
▪ <u>Expenditure</u>		2.11 bill. \$	▪ of Revenues	8%	
Defence****		19%			
Education		9%			
Health		5%			
Social		16%			
▪ <u>Deficit</u>		0.03 bill. \$			

Sources * UNDP Human Development Reports 2005–2007

** EIU Country report March 2007

*** World Bank publications: CPS for Georgia (2005), PRSO II for Georgia (2006)

**** Official data

Annex VII

Facts and Figures for Georgia (cont.)

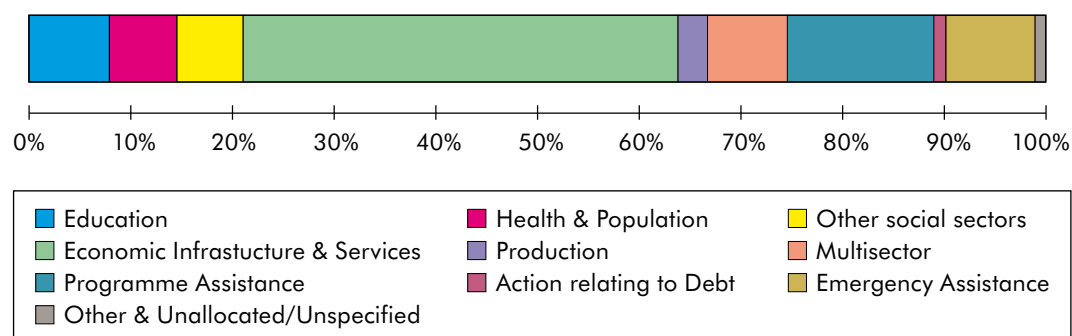
GEORGIA

Receipts	2003	2004	2005
Net ODA (USD million)	226	314	310
Bilateral share (gross ODA)	67%	62%	58%
Net ODA / GNI	5.6%	6.0%	4.7%
Net private flows (USD million)	661	32	-43

For reference	2003	2004	2005
Population (million)	4.6	4.5	4.5
GNI per capita (Atlas USD)	860	1060	1350

Top Ten Donors of gross ODA (2004–05 average) (USD m)		
1	United States	83
2	IDA	63
3	Germany	56
4	EC	36
5	SAF & ESAF (IMF)	31
6	France	11
7	Netherlands	10
8	Japan	9
9	Switzerland	7
10	Norway	7

Bilateral ODA by Sector (2004–05)



Sources: OECD, World Bank

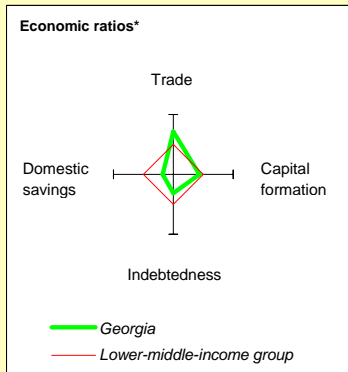
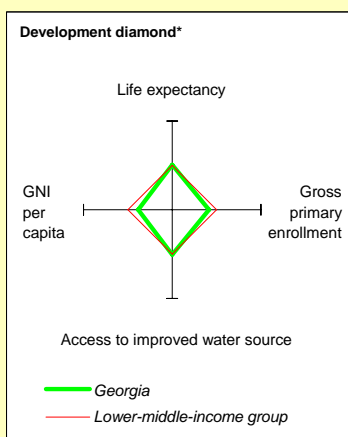
Annex VII

Facts and Figures for Georgia (cont.)

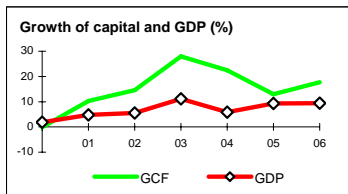
Georgia at a glance

9/28/07

	Georgia	Europe & Central Asia	Lower-middle-income		
POVERTY and SOCIAL					
2006					
Population, mid-year (millions)	4.4	460	2,276		
GNI per capita (Atlas method, US\$)	1,560	4,796	2,037		
GNI (Atlas method, US\$ billions)	6.9	2,206	4,635		
Average annual growth, 2000-06					
Population (%)	-1.0	0.0	0.9		
Labor force (%)	-0.8	0.5	1.4		
Most recent estimate (latest year available, 2000-06)					
Poverty (% of population below national poverty line)	55		
Urban population (% of total population)	52	64	47		
Life expectancy at birth (years)	71	69	71		
Infant mortality (per 1,000 live births)	41	28	31		
Child malnutrition (% of children under 5)	..	5	13		
Access to an improved water source (% of population)	82	92	81		
Literacy (% of population age 15+)	..	97	89		
Gross primary enrollment (% of school-age population)	94	102	113		
Male	93	103	117		
Female	94	100	114		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1986	1996	2005	2006	
GDP (US\$ billions)	..	3.1	6.4	7.6	
Gross capital formation/GDP	29.9	19.7	26.7	28.7	
Exports of goods and services/GDP	..	13.3	40.9	45.3	
Gross domestic savings/GDP	29.8	0.7	14.2	11.8	
Gross national savings/GDP	..	2.9	18.2	13.5	
Current account balance/GDP	..	-7.8	-6.0	-9.8	
Interest payments/GDP	..	0.2	0.4	..	
Total debt/GDP	..	44.0	29.8	..	
Total debt service/exports	..	2.5	6.2	..	
Present value of debt/GDP	22.5	..	
Present value of debt/exports	47.6	..	
	1986-96	1996-06	2005	2006	2006-10
(average annual growth)					
GDP	-17.0	5.9	9.3	9.4	..
GDP per capita	-16.3	7.0	10.3	10.3	..
Exports of goods and services	..	8.8	4.8	16.3	..

**STRUCTURE of the ECONOMY**

	1986	1996	2005	2006
(% of GDP)				
Agriculture	26.8	34.1	16.7	13.5
Industry	37.0	23.7	26.8	25.9
Manufacturing	27.8	17.4	13.7	..
Services	36.2	42.1	56.5	60.6
Household final consumption expenditure	57.4	91.6	77.0	78.9
General gov't final consumption expenditure	12.8	7.7	8.8	9.2
Imports of goods and services	..	32.4	53.4	62.1
	1986-96	1996-06	2005	2006
(average annual growth)				
Agriculture	-15.2	0.4	12.0	-9.3
Industry	-30.0	8.1	14.5	14.5
Manufacturing	-27.8	4.7	10.7	17.0
Services	-14.9	7.8	7.4	15.3
Household final consumption expenditure	..	4.8	8.3	12.3
General gov't final consumption expenditure	..	-1.3	2.1	30.9
Gross capital formation	-35.4	10.0	13.0	17.7
Imports of goods and services	..	5.8	5.0	19.5



Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.



