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Table of Contents

Introduction	5
List of Abbreviations	6
Executive Summary	7
1 Context	8
2 Rationale for the Cooperation between Switzerland and the South Caucasus Region	10
3 Past Achievements and Experiences	
3.1 Economic Development and Employment	11
3.2 Governance and Public Services	12
3.3 Human Security and Protection	13
4 Implications for the Future Programme	14
5 Strategic Orientations and Priorities for 2017–2020	
5.1 Overall aim	16
5.2 Domain “Inclusive and sustainable economic development”	17
5.3 Domain “Effective democratic institutions, human safety and security”	18
5.4 Arts and Culture	19
6 Programme Implementation and Management	20
7 Steering and Monitoring	21
Annexes	
1 Overview Results Framework	23
2 Results Framework for Domains of Intervention	24
3 South Caucasus Scenarios and Adaption of Program to Scenarios	37
4 Indicative Financial Planning	42



The valley of the Azat River, one of the many valleys in Armenia

Introduction

Throughout history, the South Caucasus has been a complex and strategically important region due to its location at the crossroads of East and West. The three modern-day South Caucasus republics – Armenia, Azerbaijan and Georgia – are situated at the frontier between Europe and Asia and lie between the Black and the Caspian Sea. The region, which is crisscrossed by vital energy routes, is surrounded by Russia, Turkey and Iran. All three countries are subject to the competing interests of major geopolitical actors. Several unresolved territorial disputes, ignited by each country's exit from the Soviet Union, have created now-frozen conflicts that hinder development and jeopardize the stability of the region as a whole.

Since the end of the Soviet Union, Switzerland has increased its engagement in the South Caucasus. Its active commitment to assisting these countries is based on the Swiss tradition of solidarity. At the same time, Switzerland, as a highly-globalized country, depends for its security and prosperity on a stable environment. It has thus developed strong diplomatic ties with all three republics and has contributed to their development as well as to preventing and resolving conflicts. Switzerland is considered a reliable partner by the governments of Armenia, Azerbaijan and Georgia thanks to its sustained mediation efforts in the various conflicts and its contributions in humanitarian, technical and financial matters. Additionally, Switzerland has a protecting power mandate in Georgia, where the Swiss Embassy represents Russian interests.

Swiss engagement with the South Caucasus countries dates back to the devastating 1988 earthquake in northern Armenia and has since expanded and intensified. In 1999, Switzerland opened a Regional Cooperation Office in the Georgian capital of Tbilisi.

The new Swiss Cooperation Strategy South Caucasus 2017–2020 seeks to affirm the Swiss government's continued commitment to the region's stability and growth by building on the results achieved through the implementation of the Swiss Cooperation Strategy 2013–2016.

The new Swiss Cooperation Strategy South Caucasus 2017–2020 was jointly developed by the Swiss Agency for Development and Cooperation (SDC), the State Secretariat for Economic Affairs (SECO), and the Human Security Division (HSD) of the Federal Department of Foreign Affairs and has been designed to carefully address the targeted needs of the partner countries, in line with the principles of Swiss development policy as defined in the Dispatch on Switzerland's International Cooperation 2017–2020. It also aims to contribute to the 2030 Agenda for Sustainable Development adopted by the United Nations, while taking into account the demands of the rapidly evolving and volatile context on the ground. Furthermore, given the clear need for cooperation at a regional level to address shared challenges such as climate change and unresolved conflicts, Switzerland will focus on the promotion of cross-border initiatives.

We trust that the activities to be carried out under the Swiss Cooperation Strategy will contribute to the South Caucasus' future development in an effective and targeted manner, and we are very much looking forward to another four years of rewarding development partnership.

We invite you to discover the new Swiss Cooperation Strategy South Caucasus 2017–2020.

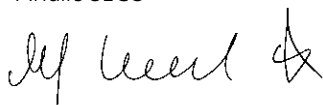
Bern, December 2016

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List of Abbreviations

ADA	Austrian Development Agency
ADB	Asian Development Bank
CHF	Swiss franc
DRR	Disaster Risk Reduction
EBRD	European Bank for Reconstruction and Development
EEU	Eurasian Economic Union
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization
FDFA	Federal Department of Foreign Affairs
GEF	Global Environment Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HA	Humanitarian Aid
HSD	Human Security Division
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
NGO	Non-Governmental Organization
OSCE	Organization for Security and Co-operation in Europe
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
SCO	Swiss Cooperation Office South Caucasus
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SME	Small and medium-sized enterprise
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNWOMEN	United Nations Entity for Gender Equality and the Empowerment of Women
USD	United States Dollar
WB	World Bank
WTO	World Trade Organization

Executive Summary

Twenty-five years after the collapse of the Soviet Union, Armenia, Azerbaijan and Georgia are still facing major challenges that prevent them from realizing their economic and social potential: Unresolved conflicts – over Abkhazia and Tskhinvali Region/ South Ossetia in Georgia, and over Nagorno-Karabakh between Armenia and Azerbaijan – the lack of economic opportunities, and governance deficits continue to hamper prosperity, stability and security in the region.

Over the years, some encouraging reforms have been implemented and the economic situation has improved in all three countries. Yet, social, economic and regional disparities remain high and the transition to pluralistic democratic systems has been unevenly embraced. The region as a whole is still affected by problems of governance, including the lack of sufficient transparency and weak rule of law, although to varying levels in accordance with the national and local contexts. Growing pessimism about the future and distrust of political leadership and institutions are worrying. Therefore, continuing Switzerland's efforts to assist the region to further develop its human and socio-economic potential is crucial.

The new Swiss Cooperation Strategy for the South Caucasus is based on the parameters set out in the Dispatch on Switzerland's International Cooperation 2017–2020 and has been developed in line with each respective national government's policies and their development priorities. It sets the framework for Swiss cooperation in the South Caucasus for the four years to come, building on Switzerland's long-standing experience in the region. Jointly developed by the Swiss Agency for Development and Cooperation (SDC), the State Secretariat for Economic Affairs (SECO) and the Human Security Division (HSD) of the Federal Department of Foreign Affairs (FDFA), the new Strategy focuses on streamlining interventions and strongly promotes a regional approach for the benefit of the entire South Caucasus region. It encompasses the following two domains of intervention:

Inclusive and sustainable economic development

Building on its experience, Switzerland will continue to promote broad-based economic development with a strong focus on improving agricultural value

chains, supporting rural SMEs, improving framework conditions and exploring opportunities to foster cross-border economic initiatives. In addition, Switzerland will support reforms to enable improvements in the business environment, facilitate access to finance and support rural economic development.

Effective democratic institutions, human safety and security

Switzerland will pursue efforts to increase the efficiency and effectiveness of government institutions, including strengthening both local governments and public finance management. To contribute to a safe and secure environment, engagement in integrated environmental risk management will continue, with a focus on sustainable development in rural and mountainous areas. Switzerland will also actively engage in the conflict transformation processes by promoting dialogue and connectivity across conflict lines. Together, these actions will help improve the government's response to its citizens' needs and strengthen the accountability of governments. By seeking to build greater trust between the citizens and their respective governments, Switzerland ultimately endeavors to make the South Caucasus a less fragile and overall safer region.

With the aim to promote regional cooperation in the face of common challenges, Switzerland will seek to encourage initiatives that both engage the region as a whole and create or strengthen linkages among the three countries in specific areas. For this approach, Georgia will play an important role as a connection point to encourage regional cooperation. In light of political constraints, the strategy will focus first and foremost on areas of mutual interest that are of only moderate political sensitivity, such as local economic cooperation and climate change adaptation. In Azerbaijan, primarily SECO will be active. Whenever possible, the SDC will involve Azerbaijan in regional projects in rural economic development, cross-border economic initiatives and natural disaster risk management.

The principles of gender equality, good governance, and conflict-sensitivity are integrated in all Swiss-supported endeavors as cross-cutting topics.

The total financial resources allocated for the time frame 2017–2020 will be around 67 million Swiss francs (CHF).

1 Context



The South Caucasus is home to highly diverse landscapes and faces growing disparities between mountainous and isolated areas like this village in Georgia's Ajara region...

Located between the Black and Caspian seas – and between the Russian Federation, Turkey, Iran and Europe – the South Caucasus has always been a region of significant geo-political strategic interest and economic value. The countries are influenced by different cultures and climates and have adopted different foreign policy orientations, yet confront common challenges. All three countries share a similar legacy of struggle after the collapse of the Soviet Union, characterized by a difficult transition to a market economy and democracy, serious and chronic gaps in economic and social development, and issues related to territorial disputes and the inclusion of minorities. All three also face the need to reshape their ties and relations with the Russian Federation 25 years after independence.

Since 1991, the three countries have followed divergent foreign policy paths, which have affected their domestic policies. From 2003, Georgia has steadily pursued a pro-Western, open market orientation, as signalled by its signing of an EU Association Agreement in 2014 and free-trade agreements with EFTA and China in 2016. After an initial rapprochement with the EU, Armenia opted to reinforce its ties with Russia and joined the Eurasian Economic Union (EEU) in early 2015. Although the country still seeks cooperation opportunities with the EU, its dependence on Russia has markedly increased in recent years. Azerbaijan, in contrast, has maintained a non-aligned position by supplying oil and gas to Europe, forging

stronger strategic links with Turkey, and maintaining strong relations with Russia.

The South Caucasus always has been subject to competing powers who have sought to influence its allegiances. At the moment, the three countries face challenges to maintain their sovereignty as key powers are inclined to pursue their narrow interests and meaningful international cooperation seems more difficult to achieve. Factors that will shape the development of the South Caucasus in the coming four years include: the conflict in Ukraine; Russia's intervention in Syria and its unpredictable relationship with Turkey; the re-positioning of Iran as a regional power; the relative withdrawal of the United States as a regional actor; and the tensions between Russia and the West.

These powers are particularly relevant to the unresolved territorial disputes resulting from the collapse of the Soviet Union. Russia, for example, remains a central player in the various conflict stabilization and resolution processes. Since the 2008 Russia-Georgia war, Russia has continuously strengthened its influence over Abkhazia and the Tskhinvali region/South Ossetia. Recent Abkhaz efforts to decrease isolation and signs of Georgian interest to engage, however, could allow for some pragmatic rapprochement in economic and social areas. Tensions between Armenia and Azerbaijan over Nagorno-Karabakh, on the other hand, have escalated in recent years, culminating in a four-day war in April 2016. While the conflict is not expected to reignite into a full-scale war, the situation remains unpredictable and the status quo seems increasingly unsustainable. Russia plays a crucial role as a mediator between the different parties. While there has been no progress in relations between Armenia and Turkey, the opening up of Iran may provide new economic and political opportunities in the coming years.

Poverty remains pervasive in all three countries and significantly higher rates persist in rural areas. Roughly half of the region's population reside in rural areas, which are plagued by poor livelihood prospects, sparse opportunities for quality education, and limited access to formal employment as they continue to struggle to recover from the post-Soviet economic collapse. In all three countries, women remain underrepresented in governance structures; have less access to finance, education and labour markets; and carry a disproportionate

burden of unpaid domestic work. Gender inequality also remains entrenched in strong social and religious traditions.

After a period of robust economic growth that fostered positive economic and social developments, particularly in urban environments, the region has been negatively affected by several global economic events and trends: the recession in Russia, the sharp decline of oil and gas prices, falling remittances and export revenues, depreciating currencies, and rising inflation. Regulatory reforms, an improved business environment, and robust commodities exports have helped mitigate their impact. High unemployment and inadequate public and financial infrastructure, however, hamper the effective provision of public services and hinder economic activity, particularly the emergence of a solid small and medium-sized enterprises (SMEs) sector. All three countries are in urgent need of reforms and greater commitment to diversify their respective economies, particularly in rural areas. Sectors such as agriculture, tourism and information technologies have substantial growth potential.

The region is highly vulnerable to natural and man-made disasters, which disrupt economic development, especially in mountainous areas. This vulnerability is worsened by the impact of ongoing climate change, land degradation, and deforestation. The effects of climate change in particular require a coordinated response across national borders, which has thus far failed to materialize due to political tensions across the region.

Further institutional strengthening is necessary for the executive and the judiciary bodies to mitigate the impact of power struggles and the risks of populist legislators. Decisive action is needed to further promote good governance, rule of law, separation of powers and transparency. Growing public dissatisfaction with political leadership and limited economic opportunities have led to numerous street protests. Civic participation, however, remains rather low and there has been limited changes to the political elite. While active civil society groups do exist in Georgia and Armenia, their interaction with the governing agencies could be much stronger. In Azerbaijan, civil society continues to be strongly controlled by the government. Yet, the pronounced economic downturn in Azerbaijan may provide a window of opportunity for institutional and economic reforms. Cooperation in the area of human rights, however, is expected to remain challenging.



... and urban areas like Baku, the capital of Azerbaijan

For the period 2017–2020, Switzerland anticipates moderately positive developments in the South Caucasus. Global economic stagnation will most likely continue to have a negative impact on the region. The region's geo-political environment will remain largely unpredictable, while the respective orientations of the three countries vis-à-vis the West, Russia and others are unlikely to change. A "fragile stability" is the most likely scenario for the territorial disputes, although temporary flare-ups of armed conflict over Nagorno-Karabakh cannot be excluded.

2 Rationale for the Cooperation between Switzerland and the South Caucasus Region



While hazelnut processor Ismayil struggled in the beginning, today he is one of the most successful businessmen in Zaqatala, Azerbaijan.

Since 1988, Switzerland's cooperation with the region has contributed to strengthening its political links with the three countries of the South Caucasus. Due to the contributions of its long-standing humanitarian, development and financial cooperation and its efforts to promote peace, Switzerland is viewed as an impartial and trustworthy partner by all three countries. The SDC was one of the first development partners to invest in rural economic development and is well-respected for its experience and expertise in local governance reforms, disaster risk reduction and affordable housing. In Azerbaijan, SECO is recognized for the expertise it provides to financial and the non-oil sector development as well as its macro-economic support, including building more transparent and accountable public financial management. The HSD's engagement in conflict transformation and peace-building has fostered Switzerland's image as a neutral and honest broker in peace mediation efforts in the region.

The three countries have become of high political and economic relevance for Switzerland. After the rupture of diplomatic relations between Georgia and Russia in 2008, Switzerland agreed to act as a protecting power for both Russia and Georgia: the Russian Federation's Interests Section in Tbilisi and the Georgian Interests Section in Moscow are now part of the respective Swiss Embassies. In 2011, Switzerland facilitated the signature of a Customs Monitoring Agreement between Georgia and Russia, opening the path for the latter's accession to the

WTO. In addition, a Swiss diplomat was tasked to lead the EU's Independent Fact-Finding Mission on the 2008 conflict. Switzerland also contributed to a breakthrough in Turkish-Armenian relations with the signature of the Zurich Protocols in 2009; despite the suspension of their implementation, these documents remain the benchmark for any rapprochement between the two countries. Overall, Switzerland continues to be engaged in a number of mediation efforts concerning the conflicts in the region, either directly or via the Organization for Security and Co-operation in Europe (OSCE). Through its support to the Geneva International Discussions and dialogue projects across conflict lines, Switzerland has steadily supported conflict settlement efforts.

Swiss engagement in the South Caucasus is in line with the priorities of the Swiss Foreign Policy Strategy 2016–2019, in particular the third (peace and security) and fourth (sustainable development and prosperity) priorities. Switzerland closely coordinates with other donors in the South Caucasus and its interventions are aligned with the respective needs of each country. The main donors active in the South Caucasus include the EU, the United States, Germany, Sweden, the United Kingdom, Japan and Austria, as well as UN organizations (UNDP, UNWOMEN, FAO, IFAD, UNHCR), international financial institutions (World Bank Group, IMF, EIB, ADB, EBRD), and the ICRC. Azerbaijan is a member of the Swiss constituency in the World Bank (WB), the International Monetary Fund (IMF) and the Global Environment Facility (GEF); it is also an important partner for Switzerland in terms of energy supplies.

3 Past Achievements and Experiences

The Swiss Cooperation Strategy 2013–2016 with a budget of roughly CHF 111 million was structured along the three domains of intervention: (i) economic development and employment; (ii) governance and public services; and (iii) human security and protection.

3.1 Economic Development and Employment



Veterinary pharmacies are well-equipped to serve local farmers along all parts of the various value chains.

A substantial engagement in rural economic development based on agricultural value chains supported different private sector actors (e.g. input suppliers, services providers, producers) along value chains such as milk, meat and fruit. As a result, there was a significant improvement of the quality and accessibility of farm support services (including veterinary pharmacies, finance, and extension services), which increased farm and cattle productivity, e.g., in Georgia, more than 53% of branded cheese (equivalent to approx. 1400 tons of cheese per year) is sourced from project participants. Overall, the income of more than 170,000 farmers and their families substantially increased, and several thousand jobs were created in agriculture-related businesses. Thanks to women taking a more active role in animal husbandry and farm management, their involvement in decision making on investments also increased. This success helped reduce migration pressure, e.g., in Armenia, target areas experienced two times less outward migration than other regions. In Azerbaijan, results achieved included an increase in income for milk producing farmers and dairies, enhanced skills of veterinarians, strengthened vocational and education schools, and better employment opportunities in the milk value chain. Unfortunately, the SDC had to prematurely close its agricultural projects in Azerbaijan in 2015 since the registration of the Swiss implementing partner was not extended by the Azerbaijan authorities.



Enterprises have doubled their production due to improved knowledge of dairy technology, food safety, business, and marketing.

The financial sector in Azerbaijan was modernized and diversified due to Swiss efforts. The introduction of new e-services, e.g., online business registration, resulted in significant cost reductions (USD 13 million per year). The national post office “Azerpost” substantially increased access to finance and services for the rural populations by providing new financial services, including money orders and transfers, currency exchanges, and issuance of debit cards.

In Georgia, Switzerland has actively contributed to policy-making related to Internally Displaced Persons (IDPs), vulnerable people and natural disaster victims. As a consequence, concerns regarding IDPs’ livelihoods and housing have been addressed in the government’s IDP Livelihoods Action Plan and IDP Action Plan. Newly created income opportunities for 181 households and repairs of small community infrastructure (such as ambulances or kindergartens), which is serving more than 3,700 families, contributed to the socio-economic integration and enhanced well-being of vulnerable people in Georgia.



People in rural communities can now transfer, exchange, and receive funds due to new financial services and products offered by “Azerpost”.

3.2 Governance and Public Services

Under the domain Governance and Public Services, Switzerland supported reform efforts to delegate greater responsibilities to regional and local authorities, better integrate citizens in planning and decision-making processes, and utilize state resources more transparently and efficiently. In Armenia and Georgia, national, regional and local authorities are better able to develop legal frameworks and to establish social and economic development strategies and budgets thanks to Swiss support. "One-stop-shops" and e-governance have been established and have improved delivery of administrative services. Armenia's community enlargement process, which is supported by Switzerland, has led to more cost-effective and higher quality public services for 165,000 inhabitants so far. Women's participation in political decision-making processes has also been strengthened. In Azerbaijan, the co-financing of public infrastructure investments and technical assistance led to improved public service delivery, including better utility services and easier real estate registration.

and their assets. In addition, Switzerland helped the national government start to develop a country-wide mountain rescue system by supporting efforts to train and equip specialized mountain rescue units.



Approximately 20,000 residents enjoy the services provided by a "one-stop-shop" opened in Alaverdi, Armenia.



With the rehabilitation and construction of water infrastructure, rural populations in Azerbaijan now have access to potable water on a regular basis.

In Armenia and Georgia, Swiss support improved natural disaster risk management and its sustainability. In Armenia, 1.75 million inhabitants (65% of the country's population) benefit from a more professional capacity to respond to natural disasters. For first responders, Switzerland developed and trained regional rescue teams according to international standards and improved continued professional development. Switzerland also helped Armenia create, train, and equip emergency medical response units as well as establish a system for skills recertification. In Georgia, Switzerland improved national and local governments' capacities for integrated risk management of natural hazards, resulting in the better protection of people

Switzerland also continued its longstanding work in affordable (social) housing in Georgia. Syllabi on topics including social space and urban development, social housing, social work, and homelessness were designed for the first time and integrated into the academic programs of Georgia's three leading universities. The Ministry of Economy and Sustainable Development adopted urban planning standards and architectural standards for affordable housing.

The deteriorating civil society situation in Azerbaijan hindered meaningful progress on human rights and democracy. Progress was made, however, in Azerbaijan's public finance management. Swiss support strengthened the external audit system by diversifying the types of audits used and improving its management capacities. A well-received e-registration platform was launched, which improved the cadastre and real estate registration process.



In Georgia, social housing was built to provide better living conditions for the most vulnerable population groups.

3.3 Human Security and Protection

Swiss assistance improved livelihoods and protection for conflict-affected populations in all three countries. Through its work on both sides of the administrative boundary line between Georgia and the break-away region of Abkhazia, Switzerland reinforced its impartiality. Swiss support substantially improved living conditions for 197 conflict-affected and returnee families in Abkhazia and the region of Shida Kartli, which borders the Tskhinvali region/ South Ossetia. Individual grants to 158 families generated better livelihood opportunities by either increasing their self-sufficiency or expanding SME growth. Approximately 4,000 families in both conflict-affected areas benefited from repairs to community infrastructure, such as kindergartens, schools or irrigation systems. Through its response to UNHCR and ICRC's respective annual appeals, the SDC contributed to greater protection of the conflict-affected populations in Armenia, Azerbaijan and Georgia.



From 2009 to 2014, Switzerland supported Armenia to establish 27 medical units with 540 healthcare professionals to complement rescue teams in six regions. The medical teams are trained to provide emergency medical care at the scene.

Switzerland continued to play an important role in supporting peace building efforts in the region. Under the Swiss and Serbian tenures as OSCE Chairperson in 2014 and 2015, respectively, the Special Representative of the OSCE Chairperson-in-Office for the South Caucasus co-chaired the Geneva International Discussions and helped to find "status-neutral" solutions for problems related to the conflicts in the Georgian context. Switzerland also introduced a plan for "structured and intensified negotiations" intended to advance a comprehensive peace agreement for the Nagorno-Karabakh conflict. In 2016, Switzerland continued to support the Special Representative for the South Caucasus of the OSCE Chairperson-in-Office during Germany's tenure as Chairperson. Thanks to the Co-Chairs' engagement, the Geneva Discussions continued in a constructive atmosphere and the parties were assisted to identify pragmatic solutions, e.g., within the Incident Prevention and Response Mechanism (IPRM) monthly



Irakli Kobalia and his friends share a green-house using natural resources for heating in Tsaishi, Georgia. Using a small grant from Switzerland, he managed to expand the business and increase production by 35%.

meetings in Ergneti and Gali. In the framework of its regional program, the HSD supported civil society initiatives which complemented the Geneva Discussions with local and international partners and which helped to advance the issue of "connectivity" in the region.



Vocational education and computer courses are a rewarding opportunity for IDP and refugee women and girls in Azerbaijan to improve their livelihoods.

4. Implications for the Future Programme



This bridge in Ajara was destroyed by a flood. Natural disasters like floods destroy local infrastructure, cutting off rural villages from their markets and destroying fields. Protective measures aim at reducing damages to riverbank farms.

While the unresolved conflicts and mistrust between involved parties pose certain limits to strengthening regional cooperation, both national and international actors agree that many of the region's challenges can only be solved through collaboration. Such a regional approach can be built through both existing mechanisms of cooperation (e.g., notably in the areas of trade, transport or energy) and established academic and professional networks in various fields (e.g., sustainable mountain development and gender equality). Consequently, the Dispatch on Switzerland's International Cooperation 2017–2020 foresees strengthening the regional approach in the South Caucasus. Previous focus areas, such as rural economic development; disaster risk management and climate change adaptation; governance reforms (e.g., decentralisation processes); and conflict transformation, continue to form the foundation of the Swiss Cooperation Strategy 2017–2020, since they remain highly relevant in the regional context and to the three countries' political priorities.

Using integrative processes to foster bridges between countries should (i) strengthen the ability of the three South Caucasus countries to handle external negative influences and shocks; (ii) enhance economic cooperation among the three countries despite different political orientations; and, possibly, (iii) contribute to confidence-building between the Georgian and Abkhaz sides. Raising awareness about the benefits of stronger regional cooperation is expected to help ease political tensions between the countries. Switzerland

is well positioned to foster regional cooperation due to its long-term engagement in agriculture, economic development and disaster risk management; its track record as a reliable partner in development cooperation; its physical presence through its representations in all three countries; and its respected neutrality.

As direct cooperation between Azerbaijan and Armenia remains highly unlikely, Georgia will serve as a base to foster increased collaboration and cooperation across the region. The efforts will focus on areas of mutual interest for the three countries which are of moderate political sensitivity, such as economic cooperation (primarily cross-border trade and developing related enabling policies and frameworks), women's empowerment, disaster risk management, and climate change adaptation.

Agriculture-based economic development continues to offer significant livelihood opportunities for the substantial rural population of the three countries. Switzerland's systemic approach has successfully strengthened selected value-chains. Reforms encouraging economic diversification and weakening monopolies will be encouraged. There is a window of opportunity to further support framework conditions by easing access to finances for SMEs and promoting entrepreneurship, with a special focus on women. Targeted programs on women's empowerment will ensure gender equality improves as the societies develop as a whole. Further strengthening efficient and effective municipal service provision remains crucial given local authorities' role in both economic development and social welfare. Overall, greater emphasis needs to be placed on policy dialogue and close collaboration with the authorities, both at local and national levels, in order to amplify results and ensure their sustainability.

In Azerbaijan, Switzerland will provide support in the areas of financial market supervision and public financial management, given the importance of a well-diversified, well-governed financial infrastructure to economic development. Swiss support in this area will possibly grow, seeking to capitalize on the current reform momentum spurred by Azerbaijan's economic crisis. In addition, mechanisms to foster public-private dialogue, including cross-border exchanges, should be established in order to foster economic development. Civil society organizations and the private sector also require support to more actively advocate for economic and governance reforms, including increased female participation in decision-making.

The region remains prone to a high number of devastating natural disasters. Risk conscious planning and hazard mapping are therefore essential for sustainable economic development, notably in rural and mountainous areas of all three countries. National and municipal capacities for integrated risk management need to be further developed. Joint efforts in disaster risk management could also strengthen regional cooperation mechanisms. Continued programming will build on previously achieved results and also link them with efforts to adapt to climate change, while collaborating with established regional academic networks and encouraging the three countries to share best practices.

The government of Georgia has shown a certain willingness to intensify its efforts for reconciliation with the break-away regions of Abkhazia and the Tskhinvali Region/South Ossetia. Such expanded efforts by the Georgian government might include partnering with donors and investing its own resources into confidence-building and reconciliation activities on both sides of the administrative boundary lines. Initiatives considered would likely include agriculture and trade across the administrative boundary lines. If this commitment persists, it offers a window of opportunity for the SDC to expand its efforts to strengthen regional economic links to Abkhazia, which would be a complementary engagement to the HSD's continuing efforts for conflict transformation.



The strategy intends to build bridges among the three countries, e.g., through a regional approach for animal identification and traceability.

5. Strategic Orientations and Priorities for 2017–2020

5.1. Overall aim

The Swiss Cooperation Strategy 2017–2020 for the South Caucasus is a shared strategy of the SDC, SECO and HSD. Its overall aim for Swiss engagement is *“With enhanced regional dialogue and cooperation, the three South Caucasus countries cope better with external economic, political and natural disaster shocks; their populations benefit from inclusive economic development as well as more democratic and legitimate institutions; peace promotion activities help to find political solutions for conflicts and contribute to increased human security.”* Gender equal-

ity and good governance are cross-cutting topics. With its focus on these topics, the Swiss Cooperation Strategy seeks to address interdependent issues at the nexus of peace and development. Meaningful and inclusive economic development requires a safe and secure environment with sound governance structures; it is also essential to prevent further conflict and promote better provision of public services. The Swiss Cooperation Strategy 2017–2020 thus pursues the following two complementary domains: (i) inclusive and sustainable economic development, and (ii) effective democratic institutions, human safety and security.



Cultivated farm land on the road to Nakhchivan, Azerbaijan.

5.2. Domain “Inclusive and sustainable economic development”

The goal for this domain is: *Women and men in the South Caucasus benefit from more inclusive and sustainable economic development in the region.* Agriculture-based economic development remains a clear priority in the region to tackle the pervasive rural poverty. For this purpose, Switzerland will engage in three axes of cooperation.

First, agricultural value chains will continue to be promoted with an enhanced focus on supporting entrepreneurship in rural areas and increasing links and exchanges across the three countries. For instance, the establishment of animal identification and traceability systems will be supported in Georgia and concurrently collaboration will be fostered among the South Caucasus countries with the intention to develop compatible systems in Armenia and Azerbaijan. Having such harmonized systems in place will create supportive framework conditions for regional trade of live animals and animal products. A strong emphasis will be placed on the economic inclusion of both women and the poorest strata of the population, including conflict-affected groups. This inclusion will be achieved through the strategic selection of value chains as well as the use of analysis of the differing obstacles and constraints faced by women and men along the value chains selected.

Second, framework conditions and opportunities for integrative processes will be explored to facilitate cross-border initiatives (e.g., trade). As a critical and strategic connecting point in south-north and east-west cooperation across the wider region, patterns of potential economic integration will be taken into account.

Third, together with the SDC, SECO will continue its support to improve the business environment and to foster access to finance for SMEs that have considerable growth potential, including those based in rural areas. In this respect, efforts will focus on agriculture and private sector policies, standards definition and implementation, as well as access to finance, skills, and financial literacy for (rural) SMEs. SECO will deepen its engagement in the development and diversification of financial infrastructure, e.g., enhanced support for the development of mobile payment and banking services, and improved access for women to financial services. In addition, the private sector will receive support to actively advocate for a sound legal and institutional framework for economic activity.



Wool offers a considerable export potential for local farmers.



Small dairy factories up-scaled and diversified their production by introducing new hard cheese varieties to local markets.



Bees from the high mountains in Ajara settled on the terrace of one of the hotels in Batumi, Georgia, to produce honey for hotel guests.

5.3. Domain “Effective democratic institutions, human safety and security”

The goal for this domain is: *People in the South Caucasus benefit from and make use of stronger and more democratic institutions as well as human safety and security.* Functioning democratic governance mechanisms and institutions, respect for human rights, and a safe and secure environment constitute the *conditio sine qua non* for sustainable and inclusive development.

This domain complements the other domain of “Inclusive and sustainable economic development” by supporting the governance framework necessary for economic development. Within this domain, Switzerland will selectively engage in the following areas of cooperation.

Through continued support to institutional capacity building, public finance management will be improved to enhance the efficiency and transparency of government spending and institutions, notably in Azerbaijan. Specific topics will include financial market regulation and supervision, as well as debt management.

The capacities of local authorities to promote local economic development, provide relevant public services, and to guarantee mechanisms for citizens’ participation (e.g., public-private dialogue) will be fostered. Switzerland will support the use of integrated development approaches and closer collaboration with private sector and civil society partners to better inform decision-making. Regionally, opportunities will be explored for cross-border cooperation among local authorities to strengthen regional economic cooperation as well as for regional exchanges on experiences and good practices in local governance and decentralization.

Building on the positive results of Swiss contributions to institutionalize disaster risk management, a strategic engagement in climate change adaptation and integrated risk management will be developed. It will focus on rural and mountainous areas and provide support to existing transboundary academic and civil society networks for regional collaboration and advocacy. This effort will increase the safety of people and communities as well as the sustainability of investments and economic development.

Mainly through the program of the HSD and with possible complementary support of the SDC in economic development in Abkhazia, dialogue, confidence-building and enhanced connectivity in the region will continue to be promoted as well as efforts to help find political solutions to the conflicts.



Improved public finance management will contribute to the development of more efficient and accountable state institutions in Azerbaijan.



The “one-stop-shop” is literally one office offering multiple services. As a result, in many parts of Armenia citizens can pay property taxes, obtain references or permits, or meet the municipal staff under one roof.



A timber crib wall has been built to ensure safe passage for residents of Joko, Ajara. Previously people relied on a narrow, unpaved road on a landslide-prone slope.

5.4. Arts and Culture

In line with the SDC's culture and development policy, promotion of arts and culture in the three South Caucasus countries will be an important element of Switzerland's engagement in the region. The unifying potential of arts and culture will be better explored by employing it more deliberately through the Strategy's regional approach. Switzerland aims to create spaces and opportunities where artists from the three countries can develop and exhibit their vision for the South Caucasus, contributing to a broader discussion on the future of the region. Simultaneously, the cultural scenes of each country will be supported.



The contemporary dance festival in Tbilisi brought together artists from the region and beyond, providing a unique opportunity for creative exchange and learning.

6. Programme Implementation and Management

The Swiss Cooperation Strategy 2017–2020 provides the basis for the joint engagement of various Swiss government entities involved in the South Caucasus region. Particular attention will be focused on testing the assumptions that (i) integrative processes can enhance resilience to external shocks for the region; and, (ii) existing networks can foster more regional dialogue and cooperation. For this purpose, an intensive dialogue on regional cooperation potentials has been launched with like-minded development partners such as the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Austrian Development Agency (ADA), as well as with multilateral organizations, such as the UN, the Bretton Woods Institutions and the European Investment Bank.

Given the political context and constraints across the three countries, Georgia will be a connection point for this regional approach. Switzerland will work with a mix of partners, instruments (e.g., contributions to multilateral agencies, bilateral interventions, support to the civil society and the private sector), and aid modalities (e.g., bilateral and regional projects, global initiatives, multi-donor and topical trust funds) to help mitigate risks and increase efficiency and effectiveness. Switzerland will cooperate with like-minded donors to promote reforms through policy dialogue and joint initiatives, while keeping an independent position. For sustainability purposes, particular attention will be paid to the institutionalization of interventions and the use of country systems.

In the Swiss Cooperation Strategy 2017–2020, the number of intervention domains has been reduced to two, in order to render Switzerland's engagement more compact and to further increase its impact. While the engagement of the SDC's Humanitarian Aid ends in 2016, the continuation of select activities in the fields of disaster risk management and climate change adaptation, as well as in the conflict region of Abkhazia, will help build on the positive results achieved and further use the depth of knowledge acquired over past years for the benefit of the South Caucasus.

Starting in 2017, the Swiss Cooperation Offices in Armenia, Azerbaijan and Georgia, which operate as a single regional office, will be administratively integrated with the Swiss Embassies in the three countries. This consolidation will increase efficiency and effectiveness and will create stronger coherence between the interventions of the different Swiss entities. While shared premises already exist in Baku and Yerevan, a solution for Tbilisi will be realized in the coming years.

Security will remain an important component. Cultural and regional diversity among the staff of the three Embassies and the regional Cooperation Office will be promoted as a means to improve understanding of the overall context in the country and region, notably as part of a conflict-sensitive management process. Current staff capacity will be adapted to the new program needs based on the phase-over of Humanitarian Aid and the concomitant consolidation and selective expansion of the portfolio. Thematic teams across the three Swiss representations in the region will steer program implementation and facilitate learning among the offices in line with the comparative advantages and experiences of their respective theme. With the deployment of a Human Security Advisor, the HSD will enhance the Swiss presence in the region.

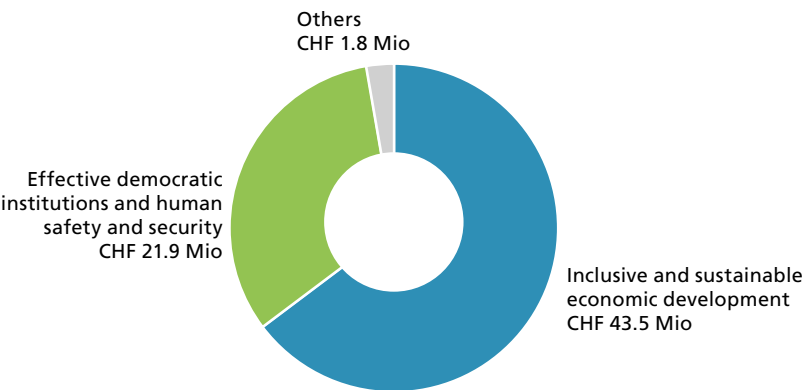
7. Steering and Monitoring

A management team led by the Regional Head of Cooperation will be based in Tbilisi and – together with Cooperation staff from the Embassies in Yerevan and Baku – will oversee program implementation. Developments in each country will be closely monitored, both in the overall program and in specific projects, and as per the attached scenarios (Annex 3). Particular attention will be paid to: (i) the implementation of reforms and the enabling environment; (ii) the situation in disputed territories and of ethnic minorities in bordering regions; and (iii) the status of regional dialogue and cooperation. Ongoing result monitoring will be undertaken at national and regional levels. Efforts to understand and reduce gender gaps will be maintained throughout in program monitoring and steering. The SDC, SECO and HSD staff in all three countries will continue to work as a regional team, with joint planning and review workshops at least twice a year, complemented by regional learning and steering exercises.

The foreseen program disbursements within the Swiss Cooperation Strategy 2017–2020 in the South Caucasus amount to CHF 67.2 million, compared to CHF 103 million (excluding management costs) within the 2013–2016 Strategy (-35%, see Annex 4 for details). The proposed amount excludes management costs, which will no longer be part of the frame

credit for the Cooperation with the East but will be included in the global budget of the FDFA per country representation. Overall, the SDC’s contribution will amount to CHF 48.2 million, SECO’s to CHF 15 million, and HSD’s to CHF 4 million.

The information on planned commitments and disbursements for the four-year period of this strategy is indicative. Actual disbursements will depend on various factors, such as the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament.



Access to credit is the engine for private sector development, including rural and self-employed households.

Annexes

1	Overview Results Framework
2	Results Framework for Domains of Intervention
3	South Caucasus Scenarios and Adaption of Program to Scenarios
4	Indicative Financial Planning

Annex 1

Overview Results Framework

Overall Aim	
With enhanced regional dialogue and cooperation, the three South Caucasus countries cope better with external economic, political and natural disaster shocks; their populations benefit from inclusive economic development as well as more democratic and legitimate institutions; peace promotion activities help to find political solutions for conflicts and contribute to increased human security.	
Domain Goals	
Inclusive and sustainable economic development Women and men in the South Caucasus benefit from more inclusive and sustainable economic development in the region.	Effective democratic institutions, human safety and security People in the South Caucasus benefit from and make use of stronger and more democratic institutions as well as human safety and security.
Switzerland's Domain Objectives	
<ol style="list-style-type: none">1. Farmers and SMEs establish and conduct business activities more easily domestically and across the region thanks to a conducive regulatory framework and adequate financial infrastructure.2. Farmers, rural and other SMEs increase their incomes and create new jobs through improved access to economic opportunities (finance, services, skills, information, education and markets).	<ol style="list-style-type: none">1. Local government institutions foster local economic development (LED) and environmental sustainability in the Region in close cooperation with national governments, civil society and private sector actors.2. The financial sector is more transparent and efficient; and national and local institutions manage public resources effectively.3. Dialogue and economic empowerment contribute to confidence-building and enhanced connectivity, particularly in Abkhazia.
Total Domain Budget	
CHF 43.5 million	CHF 21.9 million
Crosscutting Topics / Approach	
Gender, Governance, Disaster Risk Reduction, Conflict Sensitive Programme Management	

Annex 2

Results Framework¹

Domain of Intervention 1: Inclusive and sustainable economic development			
Domain Goal: <i>Women and men in the South Caucasus benefit from more inclusive and sustainable economic development in the region</i>			
(1) Swiss Portfolio Outcomes	(2) Contributions of Swiss Programme	(3) Regional/National Development Outcomes	
<p><u>Outcome Statement A1.1</u></p> <p>Farmers and SMEs establish and conduct business activities more easily domestically and across the region thanks to a conducive regulatory framework and adequate financial infrastructure.</p> <p><u>Indicators</u></p> <p>A1.1.1 Change in trade turnover in % and USD (focused on agriculture) between Georgia and Armenia as well as between Georgia and Azerbaijan.</p> <p>[Baseline: TBD; Target: TBD]</p> <p>A1.1.1 Number and type of new financial products and services established, out of which xx specifically address the needs of women.</p> <p>[Baseline: 0; Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>A1.1.3 # and type of newly introduced standards or</p>	<p><u>Intermediary Results/ Milestones</u></p> <p>Improvements made in the legal and regulatory framework will address policy gaps and remove administrative barriers for farmers, rural and other SMEs and entrepreneurs facilitate regional linkages and accelerate inclusive growth, with a specific focus on rural areas. Creation of additional elements of financial infrastructure will ease access to finance and generally boost economic activity.</p> <p><u>Assumptions</u></p> <ul style="list-style-type: none"> Governments continue to implement legislative and regulatory reforms directed towards a sustainable growth and the diversification of the economy. Governments of AM, AZ and GE continue to consider agriculture and rural development a priority in their development agendas. Governments are supportive to regional 	<p><u>Outcome Statement B1.1</u></p> <p>Armenia, Azerbaijan and Georgia have a more favourable environment for the private sector and agriculture (Synthesis).</p> <p>AM: Republic of Armenia 2014-2025 Strategic Development Programme; Republic of Armenia 2010-2020 Rural and Agriculture Sustainable Development Strategy.</p> <p>AZ: Vision 2020 Development Concept; Strategic road maps for the national economy and main economic sectors.</p> <p>GE: <i>Social-Economic Development Strategy of Georgia 2020; Strategy for Agricultural Development in Georgia 2015-2020; VET Development Strategy for 2013-2020.</i></p> <p><u>Indicators</u></p>	

¹ Baselines and Targets will be finalized during the Mid-Year Review 2017

<p>systems and improved procedures.</p> <p><i>[Baseline: 0; Target: 1 (AM); TBD(AZ); TBD (GE)]</i></p>	<p>cooperation, including cross-border issues such as animal health.</p> <p><u>Risks</u></p> <ul style="list-style-type: none"> Escalation of conflicts will negatively affect regional cooperation and reforms. Vested interests can block or hinder reforms. Outbreak of animal diseases and/or large-scale natural disasters may negatively affect agriculture sector development. 	<p>B1.1. AM, AZ, GE: Contribution of agriculture to GDP</p> <p><i>[Baseline: 23% (AM 2015); 6,2% (AZ 2015); 9.2% (GE 2015); Target: 24.5(AM); XX (AZ); 9.5% (GE) Source: World Bank].</i></p> <p>AZ: Change in real non-oil GDP (annual % change), non-oil FDI and non-oil export</p> <p><i>[Baseline: and Target to be established].</i></p> <p>B1.2. AM, AZ, GE: Ranking in WB's Doing Business Index (DBI); and Competitiveness Index (CI).</p> <p><i>[Baseline: DB 2016: 35 (AM), 63 (AZ), 16 (GE); CI 2015/16: 82 (AM), 40 (AZ), 66 (GE); Target (2020): DB: 30 (AM), 50 (AZ), 18 (GE); CI: 70 (AM), 35 (AZ), 63 (GE); Sources: World Bank, WEF], Findex (available since 2014)</i></p>
<p><u>Outcome Statement A1.2</u></p> <p>Farmers, rural and other SMEs increase their incomes and create new jobs through improved access to economic opportunities (finance, services, skills, information, education and markets).</p> <p><u>Indicators</u></p> <p>A1.2.1 Number of jobs (FTEs) created and retained by SMEs and agri-businesses (F/M).</p> <p><i>[Baseline: 0; Target: TBD (AM); TBD (AZ); TBD (GE)]</i></p> <p>A1.2.2 # of women and men in target areas with net additional income in agriculture.</p> <p><i>[Baseline: 0; Target: 18'000 (45% w) (AM);</i></p>	<p><u>Intermediary Results/ Milestones</u></p> <ul style="list-style-type: none"> Improvement of technical and management capacities of private sector actors will contribute to increasing productivity and profitability of targeted enterprises. <p><u>Assumptions</u></p> <ul style="list-style-type: none"> Business environment is conducive for the development of private sector including the agriculture sector in the South Caucasus. Private sector actors are willing to invest in their own development (including advisory services). By having better and cheaper access to finances, skills, information and other services, SMEs, 	<p><u>Outcome Statement B1.2</u></p> <p>Increase in productivity, trade turnover and employment, especially in the rural areas, contributing to the reduction of rural poverty and unemployment.</p> <p><u>Indicators</u></p> <p>B1.2.1 AM, AZ, GE: Volume and % change of export of agriculture products both to the region and out of the region.</p> <p><i>[Baseline: \$390 (AM 2015); XX (AZ 2015) \$612 m (GE 2015). Target: \$450 (AM); XX (AZ); \$700 m (GE)]</i></p> <p>B1.2.2 AM, AZ, GE: % of rural poverty.</p> <p><i>[Baseline 2015: 36% (AM), 11.3% (AZ), 25.3%</i></p>

<p>TBD(AZ); TBD (GE)] (ARI E1a)</p> <p>A1.2.3 Amount and percentage change in net income for beneficiaries (F/M). [Baseline: 0; Target: TBD (AM); TBD (AZ); TBD (GE). SCO will report on this indicator in 2018 and 2020]</p> <p>A1.2.4 Number of (agri-) entrepreneurs, SMEs that increased their income/profit (F/M) (ARI E1b). [Baseline: 0; Target: TBD]</p> <p>A1.2.5 Number of farmers and agribusinesses (F/M) having gained access to formal financial service (savings, insurance, loan, leasing, etc.) (ARI E2). [Baseline: 0; Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>A1.2.6 Annual yield increase for specific livestock (kg or l/animal) by small farmers supported (F/M) (ARI FS4). [Baseline: 0; Target: 20% (AM); TBD (AZ); 20% (GE). SCO will report on this indicator in 2018 and 2020]</p> <p>A1.2.7 Number of xx youth and yy adults (F/M) who have access to improved vocational skills training (ARI 12 EV3). [Baseline: 0 (GE); Target TBD (GE)]</p>	<p>farmers and FIs will improve their economic performance.</p> <ul style="list-style-type: none"> ▪ The banking sector has successfully overcome the problems of liquidity and non-performing loans in the three countries remnant from economic downturn from previous years. ▪ Trust in local currencies is restored and lending in local currency available. <p><u>Risks</u></p> <ul style="list-style-type: none"> ▪ Natural and man-made disasters negatively affect economic development. ▪ Economic downturn limits investment opportunities in private sector. ▪ New wave of devaluation and economic downturn may affect economic situation for banks and other private sector players. ▪ Persisting monopolies and corruption hinder private sector development. 	<p>(GE). Target: 30% (AM), 10% (AZ), 18% (GE)]</p> <p>B1.2.3 AM, AZ, GE: Value of total agriculture output. [Baseline AMD 1.2 trillion (AM 2015); AZM ??? (AZ 2015); GEL 3.67 billion (GE 2015); Target: AMD 1.5 trillion (AM); XX AZM (AZE); GEL 3.8 billion (GE)]</p> <p>B1.2.4 AM, AZ, GE: Gini index. [Baseline 31.5% (AM 2011-15); 33%; (AZ, 2008); 40% (GE 2011-15); Target: 28% (AM), 30% (AZ), 38% (GE)]</p> <p>B1.2.5 AM, AZ, GE: The change in number of graduates of VET schools on specialties related to agriculture. [Baseline: xx (AM 2015); XX (AZ 2015); 350 (GE2015); Target: XX (AM); XX (AZ); 700 (GE)]</p> <p>B1.2.6 Number of small-holder farmers with agri-insurance. [Baseline: 0 (AM 2015); XX (AZ 2015); 16,000 (GE2016); Target: XX (AM); XX (AZ); 20,000 (GE)]</p>
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(4) Lines of Intervention (Swiss Programme)

For Outcome A1.1

1. Improving framework conditions and the general environment for business and agriculture development (protection of investments, permits & licenses, inspection, insolvency, norms and standards) and reducing administrative barriers.
2. Promoting investment policy and opportunities.
3. Assisting Governments in improving targeted subsidies and policies for agriculture value chain development.
4. Supporting land registration and consolidation policies.
5. Supporting diversification of financial infrastructure (credit bureau, secured transactions, credit guarantee-scheme, non-performing loans management, risk management, non-financial services to SMEs).
6. Promoting new and innovative financial instruments and products, including gender-sensitive as well as mobile financial products (e-money) and services.
7. Contributing to increasing seeds and agri-inputs cross-border trade in the South Caucasus.
8. Support the development of animal health and registration system and procedures including cross-border movements of animals.
9. Increasing availability of data and efficiency of pasture management procedures and regulations.
10. Capacity building of local, regional and national authorities to effectively implement framework conditions.

For Outcome A1.2

1. Economic and business skills development for farmers, rural entrepreneurs and SMEs.
2. Private sector competitiveness improvement through better access to education, skills, information, finances, inputs and services.
3. Improved public and private cooperation for enhancing services to farmers, rural entrepreneurs and SMEs.
4. Access to finance and financial inclusion, offering sound and more flexible financial services at affordable terms to agricultural market actors.
5. Vocational Education and Training including development of respective curricula.
6. Technical assistance to relevant market actors (e.g. vets, artificial inseminators, feed distributors) to improve the quality and accessibility of their services in selected agricultural value chains.
7. Enhance capacities of the target groups and strengthen their linkages with other market players to increase market access opportunities.

(5) Resources, Partnerships (Swiss Programme)

Available funds² for interventions are 43.5 million CHF, including SDC funds of CHF 31.5 million and SECO funds of CHF 8 million for the period of 2017-2020.

Following partnerships are anticipated to be established in order to achieve the outcomes:

AZ:

- Government institutions: Financial Market Supervisory Authority, Ministry of Economy, Ministry of Finance, Central Bank, Ministry of Agriculture, Ministry of Education, State Veterinary Service.
- International organizations: WB, IFC, UNDP, FAO, EU, GIZ, embassies and development agencies.
- Private sector players: Financial Institutions including micro-finance, MSMEs, farmers and agri-entrepreneurs, cooperatives and associations, business support organisations.

AM:

- Government institutions: Ministry of Territorial Administration and Regional Development, Ministry of Agriculture, Ministry of Economy, State Food Safety Service, regional and local authorities.
- International organisations: UNDP, FAO, IFAD, ADA, GIZ, other development agencies.
- Local organisations: Centre for Agribusiness and Rural Development, Strategic Development Agency, other NGOs.
- Private sector players: banks, micro-credit organisations, service providers, farmers.

GE:

- Government institutions: Ministry of Agriculture, Ministry of Education and Sciences, Ministry of Economy, Ministry of Finance, National Food Agency.
- International organisations: UNDP, WB, EIB, FAO, IFAD, CGIAR, ADA, GIZ, EUD, other development agencies and embassies.
- Private sector players: Banks, MFIs, Impact investment Funds, insurance companies, SMEs, dairies, slaughterhouses, consultancy companies, input suppliers.
- Local organizations: ISET, CARD, CiDA, other NGOs and Think Tanks.

² Subject to change based on decisions in Parliament

Domain of Intervention 2: Effective democratic institutions, human safety and security			
Domain Goal: People from the South Caucasus benefit from and make use of stronger and more democratic institutions as well as from human safety and security			
(1) Swiss Portfolio Outcomes	(2) Contribution of Swiss Programme	(3) Regional/National Development Outcomes	
<p><u>Outcome Statement A2.1</u></p> <p>Local government institutions foster local economic development (LED) and environmental sustainability in the Region in close cooperation with national governments, civil society and private sector actors.</p> <p><u>Indicators</u></p> <p>A2.1.1 # and % of citizens' (F/M) participation in targeted local decision-making and/or budget planning in # municipalities (ARI GO1).</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>A2.1.2 % of increase in # local self-governments' (LSGs) budget resources due to improved fiscal transfer schemes and/or local tax income and private investments (ARI GO2).</p> <p>[Baseline: TBD (AM); TBD (GE); Target: TBD (AM); TBD (GE)]</p> <p>A2.1.3 % of women in elected and senior executive positions in the LSGs (ARI G3).</p> <p>[Baseline: 5% (AM); 8% (AZ); TBD (GE); Target: 10% (AM); 10% (AZ); TBD (GE)]</p>	<p><u>Contribution of Swiss Programme</u></p> <ul style="list-style-type: none"> Facilitating provision of technical assistance to the countries of the Region on (i) the roles of local authorities, private sector and civil society actors in promoting economic participation equally benefitting men and women and (ii) on ways to intensify interaction and cooperation between these actors, including across border interactions. Assisting the relevant authorities in developing a legal frame for selected aspects of Climate Change Adaptation/Integrated Risk Management (CCA/IRM) as well as in integrating CCA/IRM into new and existing policies, strategies and programmes across the Region taking into account gender-specific needs, with a particular focus on development planning in rural and mountainous areas, and academic curricula. Support of regional (scientific and academic) networks enhances regional/cross-border cooperation and exchanges. Assisting the relevant institutions in developing sound policies, enforceable legislation and organizational capacities for promoting inclusive and efficient decision-making and asset management at local level. Facilitate regional (South Caucasus) exchanges and cooperation with particular focus on socio-economic development of 	<p><u>Outcome Statement B2.1</u></p> <p>Men and women in Armenia, Azerbaijan and Georgia benefit from more inclusive and effective public sectors, as well as from secure environments when realizing local economic activities and/or cross-border initiatives.</p> <p><u>Sources:</u></p> <p>GE, AM: Regional Development Strategies</p> <p>GE, AM: Policy papers and monitoring reports on ongoing territorial/decentralization reforms</p> <p>GE, AM: National Voluntary Review Report of the Nationalized SDGs</p> <p>GE: Mid-term Municipal Development Documents (43 LSGs)</p> <p>GE, AM, AZ: Roadmaps for National Adaptation Plans</p> <p>AM, AZ, GE: Intended Nationally Determined Contributions (INDC) to the UN Framework Convention on Climate Change (UNFCCC)</p> <p>AM, GE: DRR National Strategies and Action Plans</p> <p>GE: National Environmental Action Plans (NEAP) 2 and 3, National Adaption Program of Action (NAPA)</p>	

<p>A2.1.4 # of municipalities with specific measures related to LED, gender equality and/or CCA/IRM incorporated in their development plans and budgets benefiting # of persons (ARI HA5).</p> <p>[CCA/IRM Baseline: TBD (AM); 7 municipalities / 178'000 persons (GE)</p> <p>CCA/IRM Target: TBD (AM); TBD (GE)</p> <p>Gender Baseline: 3 municipalities / 38'000 persons (AM); 5 municipalities (GE)</p> <p>Gender Target: TBD (AM); TBD (GE)</p> <p>LED Baseline: 3 municipalities/38'000 persons (AM); 5 municipalities (GE)</p> <p>LED Target: TBD (AM); TBD (GE)]</p> <p>A2.1.5 # of norms, policies and political processes developed in the fields of LED, gender, CCA/IRM.</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p>	<p>bordering regions.</p> <p><u>Assumptions</u></p> <ul style="list-style-type: none"> ▪ Safety and human security continue to be prerequisites for sustainable development in the Region. Political will of national governments to promote inclusive LED stays unwavering. ▪ Local authorities, private sector and civil society actors are willing to boost economic participation through closer collaboration in assessing needs, evaluating impact of natural disasters and climate change, taking (risk) informed decisions, managing resources and implementing activities coherently. ▪ Ongoing territorial and public sector reforms improve the enabling conditions for local authorities, private sector and civil society actors to facilitate and step up public service delivery and inclusive LED. ▪ Impact of inclusive LED and the quality of democratic decision-making will be increased through explicit empowerment of women and young people. ▪ Legal frame and strategies/policies on selected aspects of CCA/IRM as well as possible links to Global Funds will create the enabling conditions for local authorities to implement measures on local level for environmental sustainability and to mainstream CCA/IRM. ▪ Interaction between local authorities, civil society actors and regional networks, including academia, will contribute to regional and cross-border exchanges and cooperation on inclusive LED and CCA/IRM. 	<p>AM, AZ, GE: Relevant sector strategies with CCA/IRM goals</p> <p>AM, AZ, GE: National gender policy papers</p> <p><u>Indicators</u></p> <p>B2.1.1 # of municipalities with responsive, inclusive, participatory and representative decision-making.</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>B2.1.2 # of adopted policies and reforms, especially in the field of fiscal policy reform, influencing changes in the LSGs' budget resources.</p> <p>[Baseline: TBD (AM); TBD (GE); Target: TBD (AM); TBD (GE)]</p> <p>B2.1.3 # of sound policies and/or enforceable legislation adopted at national level for the promotion of gender equality and the empowerment of women at local levels.</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>B2.1.4 # of persons benefitting from measures related to LED, gender and CCA/IRM implemented by (targeted) local actors.</p> <p>[CCA/IRM Baseline: TBD (AM); 14'000 persons (GE)</p> <p>CCA/IRM Target: TBD (AM); TBD (GE)</p> <p>Gender Baseline: 38'000 persons (AM); 5 municipalities (GE)</p> <p>Gender Target: TBD (AM); TBD (GE)</p>
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	<p><u>Risks</u></p> <ul style="list-style-type: none"> ▪ The absence of a strong associative culture, soviet-inherited mind-sets and widespread apathy among civil society may hinder effective problem-solving and engagement in cross-border activities. ▪ Overall instability of political processes and developments might delay intended Nationally Determined Contributions to UNFCCC or hinder effective implementation of CCA/IRM-relevant reforms, like introduction of hazard maps as relevant/crucial instruments for sustainable development. ▪ Programs implemented in the field of LSG in Georgia might be influenced by the outcomes of next local self-governance elections. ▪ Programs implemented in the field of LSG in Armenia would depend on the intention of the Government to complete roll-out of territorial reforms by the end 2018. 	<p><i>LED Baseline: 38'000 persons (AM); TBD (GE)</i></p> <p><i>LED Target: TBD (AM); TBD (GE)]</i></p> <p>B2.1.5 # of integrated CCA/IRM regional studies and initiatives implemented with the participation of the Government, civil society and international community; # of LED and gender-related reforms approved and enforced by the Governments.</p> <p><i>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD: AZ); TBD (GE)]</i></p>
<p><u>Outcome Statement A2.2</u></p> <p>The financial sector is more transparent and efficient; and national and local institutions manage public resources effectively.</p> <p><u>Indicators</u></p> <p>A2.2.1 For AZ: Key PFM indicators following the PEFA methodology (ARI GO3).</p> <p><i>[Baseline: PEFA results 2014; implementation of subsequent PFM action plan (AZ); Target: TBD (AZ)]</i></p>	<p><u>Contribution of Swiss Programme</u></p> <ul style="list-style-type: none"> ▪ Improvement of capacities/streamlining of procedures of targeted national and local institutions will increase transparency, accountability and efficiency of PFM, and of asset planning and management. ▪ Improving capacities of macro-economic policy-makers on macro-economic modelling contributes to effective macro-economic forecasting, planning and decision-making. ▪ Introduction and roll-out of Results-Oriented-Budgeting; enhancement of public participation in budgeting and expenditure management, and of 	<p><u>Outcome Statement B2.2</u></p> <p>The public finance system is more efficient, results-oriented, transparent and resilient. Control over the use of funds is strengthened.</p> <p><u>Indicators</u></p> <p>B2.2.1 For AZ: PEFA assessment results.</p> <p><i>[Baseline: TBD (AZ); Target: TBD (AZ)]</i></p> <p>B2.2.2 For AZ: Open budget index.</p> <p><i>[Baseline: TBD (AZ); Target: TBD (AZ)]</i></p>

<p>A2.2.2 # and type of measures for financial market regulation and supervision (ARI GO4). [Baseline: TBD (AZ); Target: TBD (AZ)]</p> <p>A2.2.3 % of LSGs that manage public finances in line with the results-oriented- and gender-responsive budgeting. [Baseline: TBD (AM); TBD (GE); Target TBD (AM); TBD (GE)]</p> <p>A2.2.4 % of LSGs with established asset planning and management systems. [Baseline: 0 (AM); 0 (GE); Target: TBD (AM); 70 (GE)]</p>	<p>capacities for assets planning and management leads to a more transparent, efficient and inclusive public finance management at national and municipal levels.</p> <p><u>Assumptions</u></p> <ul style="list-style-type: none"> ▪ National Governments continue to be reform-oriented with regard to PFM (AM, AZ, GE). ▪ The Government shows clear intentions to reduce corruption and weaken the influence of vested interests (AZ). ▪ The Government decides to borrow money from IFIs (WB and IMF) (AZ). ▪ Results-Oriented Budgeting has been made compulsory by the Government (AM). ▪ Improvement of accounting and budgeting, asset planning and management systems of LSGs remains high on development agenda of the Government of Georgia (GE: WB/GoG agreement). <p><u>Risks</u></p> <ul style="list-style-type: none"> ▪ Lack of government's reform willingness due to rising oil prices (AZ). Vested interests may block PFM reform (AZ). 	<p>B2.2.3 % of local population reporting an improvement in municipal service delivery. [Baseline: 97% (AM); TBD (GE); Target: 60% (AM) TBD (GE)]</p>
<p><u>Outcome Statement A2.3</u></p> <p>Dialogue and economic empowerment contribute to confidence-building and enhanced connectivity, particularly in Abkhazia.</p>	<p><u>Contribution of Swiss Programme</u></p> <ul style="list-style-type: none"> ▪ Supporting the different official negotiation formats and dialogue processes between the parties (Geneva International Discussions, Limehouse Platform, Prague meetings/Istanbul Process, WTO implementation, Minsk Group). ▪ Supporting selected initiatives related to the OSCE 	<p><u>Outcome Statement B2.3</u></p> <p>Conflict-affected communities in Georgia and break-away Abkhazia benefit from intensified interaction, cooperation and greater trust across the administrative boundary line (ABL).</p>

Indicators	Special Representative for the South Caucasus (i.e. related to connectivity and trade diplomacy).	Reforms:
<p>A2.3.1 # and types of cases with improved functioning of political fora, level of cooperation and “normalization” of relations between the parties.</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>A2.3.2 # of entry points for economic development (with emphasis on women) identified and integrated in track 1 discussions.</p> <p>[Baseline: TBD (GE); Target: TBD (GE)]</p> <p>A2.3.3 # of economic initiatives/exchanges (with emphasis on women) created between the private sector’s actors representing different districts and ethnic groups of Abkhazia with the participation of # persons from vulnerable groups (ARI F1).</p> <p>[Baseline: 0 (GE); Target: TBD (GE)]</p> <p>A2.3.4 % increase incomes of # beneficiaries (F/M) due to being engaged in newly established economic exchanges/initiatives in Abkhazia.</p> <p>[Baseline: 0 (GE); Target: TBD (GE)]</p>	<p>Identifying, supporting and linking actors (with emphasis on private sector actors) in Abkhazia to improve their access to services, knowledge and markets in agriculture in this break-away region.</p> <p><u>Assumptions</u></p> <ul style="list-style-type: none"> Continuous readiness by the Abkhaz side to engage with the Tbilisi-based donors. A reduced financial dependence by the Abkhaz side on Russia to open up new cooperation avenues with other actors. The Government of Georgia keeps its openness and flexibility towards development projects and development actors operating in Abkhazia. <p><u>Risks</u></p> <ul style="list-style-type: none"> New and unpredictable geopolitical factors and/or developments/sudden twists of domestic politics (e.g. two new laws: on foreign citizens and entry/exit to Abkhazia) could render cooperation in Abkhazia and across ABL more difficult. Increased tensions and confrontation between the conflict parties might spiral out of control and call for temporary interruption of activities. Less likely scenario of conflict escalation into armed violence will inevitably call for a change in the conflict parties’ agenda and international actors’ priorities in terms of their operations in Abkhazia. 	<p>GE: <i>Strategy on Occupied Territories</i></p> <p>GE: <i>Action Plan for Engagement in Occupied Territories</i></p> <p>GE: <i>State Strategy on Socio-Economic Development of the Conflict-Affected Regions’ Populations (approval pending)</i></p> <p><u>Indicators</u></p> <p>B2.3.1 # of various local actors (Armenian, Azeri, Abkhaz, South Ossetian and Georgian) engaged in confidence-building measures.</p> <p>[Baseline: TBD (AM); TBD (AZ); TBD (GE); Target: TBD (AM); TBD (AZ); TBD (GE)]</p> <p>B2.3.2 # and % change (increase or decrease) of female decision-makers participating in various confidence-building activities under track 1.</p> <p>[Baseline: TBD (GE). Target: TBD (GE)]</p> <p>B2.3.3 Amount and % increase in economic transactions between different actors of new economic exchanges/initiatives established in Abkhazia;</p> <p>[Baseline: 0 (GE). Target: TBD (GE)]</p> <p>B2.3.4 Types and scope of new economic exchanges/initiatives established in Abkhazia.</p> <p>[Baseline: 0 (GE). Target: TBD (GE)]</p>

(4) Lines of Intervention (Swiss Programme)

For Outcome A2.1

1. **Local authorities, private sector and civil society** actors trigger more intensive, inclusive and innovative local economic development through facilitated **closer cooperation** at all stages of development, thereby improving the living standards of the local population. Better use is made of economy-of-scale opportunities both in public and private sectors, and sustainability of public services and investments is increased through transferring economic and business knowledge and practices to the public sector. Risks are decreased through integration of CCA/IRM at all steps. Legislative improvements made on the national levels and improved capacities of local civil servants allow local authorities to more independently steer local economic development.
2. **Regional/territorial development funds enhance their capacities** in streamlining available funds for local economic development through: know-how transfers, organizational development, regional exchanges of best practices and/or “learning together from others”.
3. **Women and young people** active in local authorities, the private sector and civil society become **drivers of change** in local economic development and democratic decision-making through: strengthening inclusive and gender-balanced needs assessments; identifying and promoting innovative approaches to managing local development with restricted resources (e.g. related to value chains, regional tourism, public service delivery, etc.); cross-border cooperation through joint activities between AM and GE, networking and exchanges of best practices and/or “learning together from others”.
4. Local authorities, private sector and civil society actors jointly identify new or enhance existing **cross-border initiatives** in the spheres of local economic development and/or public service delivery through: application of provided technical assistance on process and content management in local economic development (e.g. tourism, trade, jointly used economic infrastructures) and/or public service delivery (e.g. transport, waste management, natural resource management, land management, CCA, disaster-risk management related to agriculture); facilitation of public-private knowledge-transfers and partnerships.
5. Governments are assisted to develop a **hazard mapping** methodology adapted to the local contexts and to elaborate the respective normative/legislative frame and enforcement mechanisms promoting and mainstreaming hazard mapping through regional networks and into academic curricula across the Region.
6. Governments are assisted in the elaboration/updating of **National Adaptation Plans** and other relevant strategies and policies and in accessing global initiatives/funds (e.g. Green Climate Fund) for resource mobilization.
7. Facilitating and supporting the interaction of civil society actors with scientific and academic networks for enhanced advocacy and lobbying on **sustainable development** in **rural and mountainous areas**.

For Outcome A2.2

1. Enhancing **Public Finance and Economic Policy Management (AZ)**: Public debt management; program budgeting (Results-Oriented Budgeting); internal and external audit; macroeconomic forecasting.
2. Local authorities, private sector and civil society actors jointly realize modern **public finance management** with the aim to strengthen local **democratic decision-making** and improve **local economic development** and public service delivery through: strengthening of inclusive budgeting and public expenditure management

at local level; further roll-out of Results-Oriented Budgeting; promoting opportunities for mixed public-private financing; assisting the introduction of municipal cost-recovery systems for increased sustainability of public investments; regional exchanges on best practices and/or “learning together from others”.

3. Improving quality of municipal service delivery through introduction of **asset planning and management systems** at LSGs (GE, AM): establishment of asset planning and management and PCM systems along with provision of on-job trainings and needs-based consultancy.

For Outcome A2.3

1. Continue supporting regional peace-building initiatives and dialogues to rebuild relationships between the divided societies (e.g. villages along the international border between ARM and AZE and near the line of contact), to facilitate particular aspects of the Russian-Georgian relations (e.g. supporting the implementation of the WTO agreement (customs component) between Georgia and Russia, contributing to the Prague meetings through support of the Istanbul process, etc.).
2. Continue mediation and facilitation of Track 1 activities to further the political resolution of the conflicts (e.g. supporting the Geneva International Discussions, Limedhouse Discussion Platform; connecting and empowering the Georgian and Abkhaz women's organizations; advancing communication channels between the Georgians/Abkhaz/South Ossetians to identify new sectors of cooperation; supporting various confidence-building measures through civil society).
3. Supporting special initiatives pertaining to OSCE Special Representative for the South Caucasus.
4. Identifying and supporting various economic exchanges/initiatives with private sector within Abkhazia (across different regions through various ethnic groups) and possibly across the ABL with the goal of improving their access to services, knowledge and markets pertaining to agricultural value chains.

(5) Resources, Partnerships (Swiss Programme)

Resources

The financial resources³ allocated for Domain 2 amount to CHF 21.9 million (SDC: CHF 14.9 million; SECO: CHF 3 million; HSD: CHF 4 million). Due to limited financial means, implementation of activities in the sphere of public institutions will mostly rely on local partners and/or low-cost arrangements with international organizations on capacity building.

Partnerships

Wherever possible, activities involving local authorities and civil society actors shall be embedded into the already established programmatic approach on local governance (AM), thereby continuing joint planning, reporting and steering arrangements aimed at joint results' achievement through country systems.

- *National Government institutions:* Ministry of Territorial Administration and Development (AM); Ministry of Emergency Situations (AM); Ministry of Nature Protection (AM); Ministry for Regional Development and Infrastructure (GE); Ministry of Justice (GE); Ministry of Environment and Natural Resources Protection (GE); State Minister's Office for Reconciliation and Civic Equality (GE); Emergency Management Agency (GE).
- *Local authorities:* municipalities, associations of municipalities, regional governments (where applicable).
- *De facto authorities in Abkhazia (GE):* de facto Ministry of Foreign Affairs, de facto Prime-Minister's Office, de facto Heads of Regional Administrations.
- *Other public institutions:* Armenian Territorial Development Fund (AM); Municipal Development Fund (GE), Centre for Effective Governance System and Territorial Arrangement Reform (CEGSTAR); Public Academies for Civil Servants (AM, GE).
- *International institutions:* e.g. UNDP, UN Women, WB, GIZ, CoE (for cross-border cooperation expertise); UN agencies and INGOs active in Abkhazia (GE).
- *Civil society organizations:* women's resource centres, local and regional NGOs working on peace promotion, civil society organizations working on CCA, etc.
- *Private sector:* business associations; business support organizations (BSO); diaspora entrepreneurs; private sector actors in Abkhazia (GE).
- *Academic institutions:* Scientific Network for the Caucasus Mountain Region and related universities (including Turkey, Russia and Iran).

³ Subject to change due to decisions in Parliament

Annex 3

South Caucasus Scenarios and Adaptation of Programme to Scenarios

	Negative development <i>A Caucasus of entrenched positions and unresolved conflicts turning more hostile</i>	Moderately positive development <i>A Caucasus of more inclusive societies, nascent regional sensitivities and status quo for the unresolved conflicts</i>	Very positive development <i>A Caucasus of strong regional linkages and constructive solutions to the unresolved conflicts</i>
Likelihood	Low-medium	Medium-high	Very low
Political – Governance	<ul style="list-style-type: none"> - Governments become more nationalistic and populist to distract from economic problems - Fighting in political elites and clans - Stronger block building - Significant reduction in respect of human rights in the whole region - Georgia turns away from the EU aspirations - Azerbaijan gets under strong influence of Russia joining Eurasia Customs Union 	<ul style="list-style-type: none"> - Governments continue their main current course, trying to find a balance between East and West - First attempts to render the different economic integration regimes compatible - Strengthening of public regulatory systems - Nascent awareness of benefits of regional linkages in certain areas 	<ul style="list-style-type: none"> - Countries actively strengthen regional exchanges in certain common areas of interest (trade, environment) - EITI fully implemented - Significant improvements in Azerbaijan with regard to human rights and the civil society's space for action - Partnership between Georgia and Russia deepens - Important reforms implemented, supported by society
Socio-economic	<ul style="list-style-type: none"> - Significant currency fluctuations and strong inflation lead to impoverishment of a large part of the society - Increase in corruption - Stagnation of economy leads to increase of migration - Disillusion in Georgia with the DCFTA - Reforms relevant for the SCO program are not approved and/or implemented due to strong individual interests - Increase of social unrests incl. religious or ethnic minority groups - Increase in incidences of domestic violence, school drop-outs, sex-selected abortions and early marriages - Substantial increase of refugees from Syria - Growing economic downturn leaving vulnerable 	<ul style="list-style-type: none"> - Further steps towards stronger economic regional connections through cross-border trade, energy and transport routes - Some reform efforts and weakening of individual/monopolistic interests - Consistent efforts for economic diversification and rural development lead to smaller imbalances between urban and rural areas - Steady investments and/or remittances by migrants - Attempts to further increase the social allowances and pensions - Sporadic demonstrations of public dissatisfaction - Growing access of women to economic resources and decision-making, engendering different strategies by line ministries 	<ul style="list-style-type: none"> - Enhanced compatibility between the two economic integration regimes (EEU and EU DCFTA) - Strong endeavors for economic diversification and attraction of investments - Active high level anti-corruption fight including abolition of monopolies - Significant reduction of urban-rural dichotomy - The significant potential of women in economic and social development is realized; gender equality and women empowerment is strongly supported by different branches of the government - Increased investments and remittances by migrants

	layers of society, like the elderly, single mothers and youth in more precarious situation	<ul style="list-style-type: none"> - Slightly increased oil prices help Azerbaijan avoid further economic downturn - Impact of global economic stagnation trickling down on the region 	<ul style="list-style-type: none"> - Strong endeavors for fully effective disaster risk preparedness and response mechanisms development on all levels (communities, insurance market, disaster risk reduction financed by state) as well as for CCA - Shift from oil and gas industry to sustainable use of water resources and other renewable sources for energy production
Environment	<ul style="list-style-type: none"> - Decreasing commitment to develop a sufficient disaster risk management including CCA - Big scale natural or man-made disasters (earthquake, floods, land/mud slides, nuclear or chemical incident etc.) set the region back - Resource scarcity and displacements through increased negative effects of climate change with impact on agriculture both in terms of human resources and production 	<ul style="list-style-type: none"> - Increased awareness of disaster risk reduction - Strengthening of disaster risk management mechanisms - Adaptive measures with regard to climate change - Extreme weather conditions causing small to medium scale natural disasters (land/mud slides, floods, etc.) with negative effects on populations, infrastructure, economic development 	
Security	<ul style="list-style-type: none"> - Escalation of Nagorno-Karabakh conflict from ceasefire with occasional exchanges of fire to full-scale war (e.g. because of recognition of Nagorno-Karabakh's independence by Armenia) - Dialogue process between Russia and Georgia halted - Abkhazia aims for stronger integration with Russia with travel across ABL and international programs fully being restricted - Tskhinvali Region/South Ossetia integrates into the Russian Federation - Violent manifestation of religious extremism and terrorism - Violent unrests caused by political dissatisfaction or economic recession 	<ul style="list-style-type: none"> - Continuation of the current Georgian policy of pragmatic relations with Russia - Status quo in the conflicts on Nagorno-Karabakh (ceasefire with occasional exchanges of fire) and Tskhinvali Region/South Ossetia (strengthening of Russian presence) - Slight opening up of Abkhazia and a new "opening" policy of Georgia - Two new laws in Abkhazia do not meaningfully restrict across the ABL travel and space for operations 	<ul style="list-style-type: none"> - Relationship between Georgia and Russia is fully reestablished - "Entente" between the Georgian and Abkhaz sides allows full economic cooperation - Advances are made with regard to the Nagorno-Karabakh, Abkhazia and Tskhinvali Region/South Ossetia conflicts - Tskhinvali Region agrees to allow access from the Georgian-controlled territories

Adaptation of programme to scenarios			
	Worst case scenario	Most likely scenario	Best case scenario
Key points for adaptation (selected from list above) Security/Conflict Governance/Reforms Legitimacy/Ownership	<ul style="list-style-type: none"> - Escalation of Nagorno-Karabakh conflict from ceasefire with occasional exchanges of fire to full-scale war - Dialogue between Russia and Georgia breaks down; Abkhazia moves closer towards Russia, while Tskhinvali Region/South Ossetia fully integrates with Russia - Governments become more nationalistic and populist - Georgia turns away from EU aspirations, Azerbaijan gets under strong influence of Russia joining Eurasia Customs Union - Reforms relevant for the SCO program are not approved and/or implemented - Big scale natural or man mad disasters (earthquake, floods, land/mud slides, etc.) set the region back 	<ul style="list-style-type: none"> - Status quo in the conflicts on Nagorno-Karabakh (ceasefire with occasional exchanges of fire) and Tskhinvali Region/South Ossetia (strengthening of Russian presence) - Continuation of the current Georgian policy of pragmatic relations with Russia - Slight opening up of Abkhazia and "a new opening" policy of Georgia - Two new laws in Abkhazia do not meaningfully restrict across the ABL travel and space for operations - Governments continue current course (balance between East and West) - First attempts to render the different economic integration regimes compatible; efforts for economic diversification and rural development - Strengthening of public regulatory systems - Reform efforts - Nascent awareness of benefits/further steps of regional linkages in certain areas (e.g. economic regional connections) 	<ul style="list-style-type: none"> - Advances are made with regard to the Nagorno-Karabakh, Abkhazia and Tskhinvali Region/South Ossetia conflicts - Relationship between Georgia and Russia is fully reestablished - "Entente" between the Georgian and Abkhaz sides allows full economic cooperation - Tskhinvali Region agrees to allow access from the Georgian-controlled territories - Countries actively strengthen regional exchanges in certain common areas of interest (trade, environment) - Enhanced compatibility between the two economic integration regimes (EEU and EU DCFTA) - Important reforms implemented, supported by society - Significant improvements in Azerbaijan with regard to human rights and the civil society's space for action
Geographical focus	<ul style="list-style-type: none"> - No activities possible in the conflict areas, in their bordering regions and beyond in case of a full-scale war (in particular related to Nagorno-Karabakh) - Focus of development activities on regions where access is safe, work allowed and encouraged - Enhanced engagement in regions affected by the conflicts with mobilization of SDC Humanitarian Aid's emergency assistance 	<ul style="list-style-type: none"> - No activities possible in the conflict areas of Nagorno-Karabakh and Tskhinvali Region/South Ossetia - Selective engagement in (economic) development in Abkhazia - HSD engagement in confidence building and peace initiatives with focus on Abkhazia - Development activities with a regional approach include selected border areas (e.g. cross-border activities) 	<ul style="list-style-type: none"> - Deeper development engagement in Abkhazia - Selective and gradual engagement in Nagorno-Karabakh and/or Tskhinvali Region/South Ossetia - Enhanced development engagement in border areas

Swiss presence and focus, SCO management	<ul style="list-style-type: none"> - Re-mobilization of SDC HA for emergency assistance (selected recovery activities for new IDPs/Refugees/Returnees to be considered) and a stronger presence of HSD for peace- and/or confidence building on all conflicts - Regional approach for development activities becomes more challenging or even impossible; cautious balance of engagement between and within the countries in conflict - Enhanced Conflict Sensitive Programme Management (CSPM) analyses within SCO team and with implementing partners - Upgrade of the security management of the SCO/Embassies and the implementing partners (with intensified regional coordination) - Higher frequency of MERV by SCO/Embassies and implementing partners 	<ul style="list-style-type: none"> - Swiss Portfolio centered on development with a regional cooperation perspective as well as on peace-/confidence- building and conflict transformation - <i>Whole of Government approach/ Complementary Office with SDC (new incl. Global Cooperation CC?)</i>, SECO and HSD (SDC HA only in case of emergency, e.g. natural disasters, conflict resurgence) - Selective (development) engagement as part of conflict transformation in Abkhazia - CSPM essential for a balanced regional approach in all domains, as well as for selection of implementing partners, especially in border regions (e.g. ethnic minorities) - Usual security management of the SCO/Embassies (with regional coordination) - Regular MERV consistently mindful of ethnic minorities' situation 	<ul style="list-style-type: none"> - Swiss Portfolio centered on development with a strong regional perspective - <i>Whole of Government approach / Complementary Office</i> with SDC, SECO and HSD - Strong development engagement as well as HSD activities in Abkhazia - Continued conflict transformation or reconciliation measures and progressive engagement in Nagorno-Karabakh and/or Tskhinvali Region/South Ossetia - Undemanding CSPM within SCO team and with implementing partners in all domains - Usual security management of the SCO/Embassies (with regional coordination) - Regular MERV mindful of ethnic minorities' situation
Policy dialogue, donor coordination and aid modalities	<ul style="list-style-type: none"> - Engaged policy dialogue centered on conflict transformation and peace-building - Limited and cautious alignment of development engagement with the Governments - Case by case donor coordination centered on peace-building and conflict transformation by means of concrete programs and policy dialogue - Bilateral and multi-bi projects mostly through international organizations or/and IFIs, only with selected local partners 	<ul style="list-style-type: none"> - Support to Governments' reforms and engaged policy dialogue; pro-active engagement wherever national governments are not fully open to all suggestions - Continuous donor coordination and alignment of development engagement - Interventions at all levels (macro, meso, micro) with a full mix of aid modalities, partners and funding mechanisms: bilateral interventions with different international or national partners, contributions to multilateral organizations etc. (certain limitations in terms of partners and implementation modalities imposed by the conflict regions) 	<ul style="list-style-type: none"> - Support to Governments' reforms and policies, high emphasis on active policy dialogue with advocacy and support for regional cooperation - Continuous donor coordination, alignment of development engagement, with a strong regional perspective - Interventions at all levels (macro, meso and micro) with a full mix of aid modalities and partners and funding mechanisms expanded as well to former conflict areas tapping all resources available: private sector investments, global and regional initiatives, multi-donor trust funds, etc.)

Per Domain	Changes if compared to most likely scenario	Outcomes as in the results framework	Changes if compared to most likely scenario
Inclusive and sustainable economic development	<ul style="list-style-type: none"> - No regional approach possible, only limited and selective activities possible, re-orientation of engagement and sources to international (finance) organizations without direct involvement of civil society and/or to self-reliance and income generation support activities - Focus of development engagement on private sector and actors - Scale down and/or careful screening of engagement with Governments - Selective policy dialogue on minimum framework conditions for agriculture and private sector resilience 	<ol style="list-style-type: none"> 1. Farmers and SMEs establish and conduct business activities more easily domestically and across the region thanks to a conducive regulatory framework and adequate financial infrastructure 2. Farmers, rural and other SMEs increase their incomes and create new jobs through improved access to economic opportunities (finance, services, skills, information, education and markets) 	<ul style="list-style-type: none"> - Enhanced support to regional initiatives and related enabling conditions - Accelerated support to cross-border trade within the region - Supporting establishment of joint ventures and Free Economic Zones for increasing export potential - Active advocacy and seed-resources for joint/pooled regional funding mechanism - Explore opportunities for enhanced complementary engagement of SECO-supported development instruments for investment and trade facilitation
Effective democratic institutions and human security	<ul style="list-style-type: none"> - Re-orientation of development engagement and of resources from local authorities to civil society and private sector actors - Scale down and/or careful screening of engagement with Governments - Selective support to CCA/IRM activities less focusing on regional cooperation - Support to (local) governments in dealing with consequences of resurgence of conflict/full-scale war (public services delivery, empowering personnel, etc.) - Continuous dialogue on Public Finance - Management with cautious engagement - Enhanced engagement for conflict resolution, promoting peace- and confidence-building with local and regional partners without development engagement in Abkhazia - Selected recovery activities for new IDPs/Refugees/Returnees by SDC/HA to be considered 	<ol style="list-style-type: none"> 1. Local government institutions foster local economic development (LED) and environmental sustainability in the Region in close cooperation with national governments, civil society and private sector actors 2. The financial sector is more transparent and efficient; and national and local institutions manage public resources effectively 3. Dialogue and economic empowerment contribute to confidence-building and enhanced connectivity, particularly in Abkhazia 	<ul style="list-style-type: none"> - Enhanced support to local authorities, civil society and private sector actors to boost cross-border cooperation (private sector initiatives, etc.) - Enhanced engagement in support of regional networking on DRR/CCA and gender/women empowerment - More institutional support in Abkhazia to support the sustainability of economic interventions - Cautious elaboration of development activities for Nagorno-Karabakh and/or Tskhinvali Region/South Ossetia

Annex 4

Indicative Financial Planning

Total planned disbursements 2017 – 2020 per year in CHF million (incl. disbursements committed before 2017)					
Domain	2017	2018	2019	2020	Total
Inclusive and sustainable economic development					43.50
SDC	7.80	7.80	7.90	8.00	31.50
SECO	3	3	3	3	12
Effective democratic institutions and human safety and security					21.90
SDC	3.60	3.60	3.80	3.90	14.90
SECO	0.75	0.75	0.75	0.75	3
HSD	1	1	1	1	4
Other interventions	0.60	0.40	0.40	0.40	1.80
Total	16.75	16.55	16.85	17.05	67.20
Management costs*	2.00	2.00	2.00	2.00	8.00
Grand total	18.75	18.55	18.85	19.05	75.20

Total planned disbursements 2017 – 2020 per organizational unit in CHF million (incl. disbursements committed before 2017)								
Domain	SDC		SECO		HSD		Total	
Inclusive and sustainable economic development	31.5	65%	12	80%	-		43.5	65%
Effective democratic institutions and human safety and security	14.9	31%	3	20%	4	100%	21.9	32%
Other interventions	1.8	4%	-		-		1.8	3%
Total	48.2	72%	15	22%	4	6%	67.2	100%
Management costs*	5.4		2.6		-		8	
Grand total	53.6	71%	17.6	24%	4	5%	75.2	100%

The final allocation of funds will depend on the identification of suitable interventions, the absorption capacity as well as the efficiency and effectiveness of the cooperation with the relevant partners in each partner country. Accordingly, the following information on planned disbursements for the four-year period of this strategy is indicative. It cannot be considered a firm commitment or claimed as such by the partner country. This information serves merely as a basis for the forward spending plans that are reviewed each year by the Swiss Parliament. Actual disbursements will depend on various factors, such as the changes in the project portfolio and the framework conditions of the partner country as well as available disbursement credits authorized by the Swiss Parliament. Portfolio and planned disbursements are regularly discussed with the partner authorities.

*According to the FDFA-SDC Budget Process, the Programme management costs are not anymore part of the Frame Credit VI: they are now included as "Own Operational Expenses" into the FDFA Global Budget. However the development cooperation management costs are illustrated in the budget of the Cooperation Strategy.

Note: Development cooperation management costs according to percentage development cooperation catalogue of tasks (Aufgabenkatalog) representations: 2/3 SDC, 1/3 SECO

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