

USAID/Azerbaijan Country Development Cooperation Strategy 2011-2016



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ACRONYMS AND ABBREVIATIONS

AC	Assistance Coordinator
ADB	Asian Development Bank
AML	Anti-money laundering
CBA	Central Bank of Azerbaijan
CDCS	Country Development Cooperation Strategy
CFT	Counter-financing of terrorism
CoE	Council of Europe
CSO	Civil society organization
DG	Democracy and Governance
DHS	Demographic and Health Survey
DO	Development Objective
DCOF	Displace Children and Orphans Fund
DTRA	Defense Threat Reduction Agency
EFM	Eligible Family Member
E&E	Bureau for Europe & Eurasia
EBRD	European Bank for Reconstruction and Development
EG	Economic Growth
EGAT	Economic Growth and Trade Bureau
EU	European Union
FATF	Financial Action Task Force
FMS	Financial Monitoring Service
FSN	Foreign Service National
GDA	Global Development Alliances
GDP	Gross Domestic Product
GHI	Global Health Initiative
GOAJ	Government of Azerbaijan
HMIS	Health Management Information System
IDP	Internally Displaced People
IMF	International Monetary Fund
IR	Intermediate Result

MDR	Multidrug-Resistant
M&E	Monitoring and Evaluation
MOH	Ministry of Health
MOU	Memorandum of Understanding
MP	Member of Parliament
NGO	Non-governmental organizations
NK	Nagorno-Karabakh
OE	Operating Expense
OSCE	Organization for Security of Cooperation in Europe
PFOC	Program Funded Operational Costs
PHC	Primary Health Care
PMP	Performance Management Plan
SAMHI	State Agency for Mandatory Health Insurance
SCS	State Committee on Securities
SMEs	Small and medium enterprises
SOFAZ	State Oil Fund of Azerbaijan
STR	Suspicious Transaction Report
TB	Tuberculosis
TCN	Third Country National
UN	United Nations
UNDP	United Nations Development Program
U.S.	United States (of America)
USG	United States Government
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization

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Executive Summary

The United States has three sets of long-term strategic interests in Azerbaijan: security, energy, and internal reform. Azerbaijan's strategic significance derives from being a secular state with a Muslim-majority population and traditions of religious tolerance that lies at the crossroads of the Middle East, Central Asia, and Europe, anchors the emerging Southern Corridor to help Europe diversify its supplies of natural gas, and which, if successful in evolving into a market democracy, can inspire others in its region and beyond. Azerbaijan is also a strong partner in counterterrorism, including in support of implementation of financial sanctions and anti-terrorism financial regulations, and in Afghanistan. Domestically, Azerbaijan has laid the foundation upon which it has the potential to build a more participatory society.

The goals of economic and political reform form the nexus of U.S. foreign policy and development agendas. Azerbaijan has demonstrated political will in some areas to embrace reform and has taken steps to improve the socio-economic conditions for its people. In other areas, change has moved at a slower pace. Azerbaijan began its reform agenda later than many other countries of the former Soviet Union because of the Nagorno Karabakh war of the early 1990s. Economic reform gained momentum after 2001 and accelerated after 2005, when oil revenues sharply increased.

The overall goals of USAID assistance in Azerbaijan over the CDCS period are to support Azerbaijan's reform process by promoting competition and pluralism in society to lay the foundations for a sustainable market-based democracy. USAID aims to support the following objectives over the five year strategy period: 1) improving the investment climate and increasing investment to diversify economic growth (especially in agriculture); 2) increasing the effective participation of diverse actors and institutions in the democratic development of the country; and 3) investing in people, primarily through access to quality health care through strengthened practices and systems, social assistance through targeted programs and gender equality. To implement these objectives, we will partner with the private sector, NGOs, regional governments and with the Government of Azerbaijan (GOAJ).

The U.S. government's longstanding development partnership with the GOAJ has evolved. It has matured from its initial focus largely on humanitarian assistance in the early 1990's to one where we jointly plan and co-finance our activities. Today the partnership is one of equals, and focused on long-term development. In the coming years, we will build on the strong foundations of our relationship with our partners to broaden and deepen our collaboration, and strive to leave behind a sustainable legacy of our joint efforts.

I. Development Challenges and Opportunities

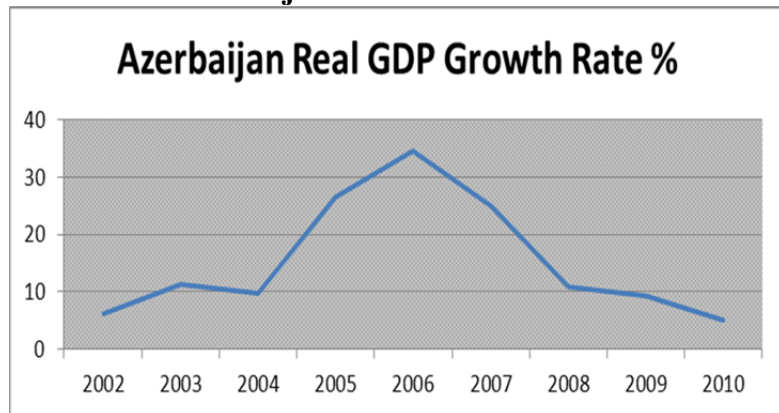
Foreign Policy Priorities and Development Context

The United States (U.S.) has a strategic partnership with Azerbaijan based on shared strategic interests in security, energy, and political and economic reform. A secular Muslim nation strategically located between Russia and Iran, Azerbaijan is at the center of both north-south and east-west regional energy corridors and is crucial to the Southern corridor strategy to ensure oil supplies to Western Europe. In addition, Azerbaijan has been an important strategic partner in the international fight against terrorism. Sustaining this strategic partnership requires long-term stability, which will emerge if we can help Azerbaijanis lay the foundations for sustainable democracy and broad-based economic growth.

Oil revenues have led to significant increases in GDP and substantial improvements in living standards. Rapid oil-based economic growth peaked in 2006, and averaged over 25 percent annually between 2005 and 2007, the year after the Baku-Ceyhan oil and the Trans-Caucasus natural gas pipelines opened. GDP growth has since leveled off, especially after the financial crisis. Azerbaijan realized GDP growth reaching 9.3 percent in 2009, 5 percent in 2010, and an estimated 3.5 percent in 2011¹.

There is a risk that the source of this growth, oil and gas exports, is making the country's economy overly dependent on the export of this single natural resource and thus reluctant to diversify its economy and enact needed reforms. Diversification of economic growth and implementation of needed political and economic reforms before Azerbaijan's petro-revenues taper off is vital to creating a balanced, competitive, and integrated economy.

Chart 1: Azerbaijan Real GDP Growth Rate %



State Statistical Committee of Azerbaijan, <http://www.azstat.org>

The government realizes that economic diversification and integration with the global economy will be increasingly important for the post-oil economy of the future. To that end, they have embraced selected reforms that will facilitate increased international trade and investment and have moved rapidly to adopt international banking standards to stop money laundering and the financing of terrorism. The Government of Azerbaijan (GOAJ) has also supported the proliferation of Internet access throughout the country's schools.

¹ State Statistical Committee of Azerbaijan, <http://www.azstat.org>.

Since it declared independence from the former Soviet Union in 1991, Azerbaijan has carefully balanced its relationships with its neighbors, including Turkey, Russia, and Iran, as well as the United States and Europe. However, Azerbaijan's regional foreign policy relationships are affected by the Nagorno Karabakh (NK) conflict, unresolved since the ceasefire of 1994, which has displaced about 900,000 Azerbaijanis and closed off the possibility of any regional cooperation with Armenia. The challenge for Azerbaijan now is to maintain its independence, deepen its economic and strategic connections with the Euro-Atlantic community, and to begin a transition to better governance and opportunity for all citizens to share in economic and social progress.

Country Overview

Azerbaijan is located on the Caspian Sea at the crossroads between Europe and Central Asia. It shares a border with Russia and Iran where an estimated 25 million ethnic Azerbaijanis live. Azerbaijan was a part of the former Soviet Union from 1920-1991 and of the Russian Empire between 1828 and 1918. It was a Republic after World War I from 1918 – 1920. It is a moderate secular state with a Shiite Muslim majority.

The population of 9 million is mainly Azerbaijani but also includes local ethnic groups such as Talish, Lazgis, Kurds, Udins, and others. An estimated 3 million people live in Baku. The city has grown from the influx of refugees from Nagorno Karabakh (NK) in the early 1990s as well as from economic migrants coming from rural regions to improve their livelihood.

The Azerbaijani government and society demonstrate sensitivity to and awareness of the importance of gender equality. Azerbaijan was one of the first countries to give women the right to vote in 1919. Since its independence in 1991, the Republic of Azerbaijan has ratified almost all essential international documents concerning the protection of women's rights. However, although Azerbaijan has achieved a number of positive advancements in granting equal rights to women in the fields of legislation, education, and employment, the government acknowledges that violations of women's rights and gender disparities continue to occur in the country, and is working to improve safeguards.² The World Economic Forum's 2010 Global Gender Gap report, which assesses the gender situation based on economic participation and opportunities, educational attainment, political empowerment, and health ranked Azerbaijan 100th out of 134 countries³.

Azerbaijan became a Republic in August 1991 when it was one of the first countries to declare independence from the former Soviet Union. It faced great economic and political uncertainty at the time and was already experiencing tensions from unrest in NK. Soon after, it was involved in the NK war which stabilized with the signing of the ceasefire agreement in 1994. Azerbaijan lost about twenty percent of its territory and the peace talks with Armenia still have not been concluded.

² See website for Azerbaijan State Committee for Family, Children and Women Affairs at <http://en.scfwca.gov.az/index.php>

³ The Global Gender Gap Index 2010 rankings, World Economic Forum, <https://members.weforum.org/pdf/gendergap/rankings2010.pdf>

The transition took its economic and political toll. From the economic perspective, the transition was brutally abrupt. By 1995, Azerbaijan's economy had declined to \$3 billion, a third of its value from 1990 before the collapse of the former Soviet Union. From the political perspective, the lack of confidence in the political leadership led to changes in the presidency twice in the first two years after independence. Heydar Aliyev was elected president in 1993 and 1998. The current president, Ilham Aliyev, was elected in 2003 and 2008. The first parliamentary elections for the new republic were held in 1995 and every 5 years after. In the first two elections, voters had a chance to choose between the candidates as well as political parties. After an amendment to the Constitution in 2002, voting for party lists was eliminated.

Today, Azerbaijan is more stable and prosperous, reaching an estimated GDP of \$52 billion in 2010. Per capita income increased from \$820 in 2003 (World Bank, Atlas method) to \$5080 in 2010. The opening of the Baku-Ceyhan Pipeline and the Trans-Caucasus Pipeline fueled strong GDP growth from 2003 through 2008. Growth in the oil and gas sector was complemented by increasing growth in the non-oil sector. The financial crisis of 2008 dampened the upward trend in non-oil economic activity exports but it increased again in 2010 and 2011.

One result of the new prosperity was a dramatic decline in the poverty rate – from 49 percent in 2001 to 10 percent in 2010 based on information from the State Statistical Committee of Azerbaijan. Growth has been relatively broad-based, lifting all income groups according to the World Bank report. In the 2010 UN Human Development Index⁴, Azerbaijan improved its position moving to No. 67 out of 169 countries represented in the report. Minimum wage increased several times in the past several years.

The GOAJ has maintained sound macroeconomic policies through careful management of the oil windfall. The State Oil Fund of Azerbaijan (SOFAZ), the cornerstone of its oil revenue management strategy set up in 1999, has received international recognition for transparent operations. Expenditures are a part of the budget, the fund is audited and financial reports are available regularly. Today, assets of SOFAZ constitute a major part of international monetary reserves of Azerbaijan, which reached \$34.2 billion in April 2011⁵.

AZERBAIJAN SNAPSHOT

- Independence: August 30, 1991
- Government: Republic
- President: Ilham Aliyev
- Capital: Baku
- Population (2011): 9.077 million
- Area: 33,774 sq. mi.
- GDP (2010): \$52 billion USD
- GNI per capita, WB Atlas method, (2010): \$5080
- Adult literacy: 98.8%
- Poverty rate (2010): 10 %

⁴ The Human Development Index (HDI) is a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and income. It was first developed by the late Pakistani economist Mahbub ul Haq with the collaboration of the Nobel laureate Amartya Sen and other leading development thinkers for the first Human Development Report in 1990.

It was introduced as an alternative to conventional measures of national development, such as level of income and the rate of economic growth. Source: United Nations Development Program (UNDP), Human Development Report:

<http://hdr.undp.org/en/statistics/hdi/>

⁵ Official website of the President of the Republic of Azerbaijan, www.president.az

During the growth boom, the GOAJ expanded public investment in infrastructure and in parts of the social sector. It expanded public sector investment in roads, public water supply, rail, and power generation for energy production improving the quality of life for ordinary citizens. It expanded investment in the social sector through, for example, increased spending in social services. It established the Targeted Social Assistance Program in 2006 which increased funding to help those in need of a social safety net. The program is also recognized for improved governance as the GOAJ increased transparency in the operation of the program for pensions and social assistance. It received the Efficient Governance Award in 2010 from the European International Social Security Association. Critics of the government’s public investment plan call for increased spending on pensions and social assistance.



Map of Azerbaijan

In summary, Azerbaijan has improved its social and economic situation in the global economy. It is now well positioned to build on this progress to continue with its reform agenda. Initial improvements in practices to streamline business registration and inspections will help expand private investment. Success in setting up the targeted social assistance program, improvement in health and education funding, improved investment in government institution and staff salaries are also helping to improve quality of life for the citizens of Azerbaijan.

The CDCS incorporates the following core principles:

- ❖ Pluralism – The strategy seeks to expand participation by all citizens of different backgrounds and communities to help support broad representation in accomplishing development objectives.
- ❖ Competition – The strategy seeks to expand competition in political, economic, and social spaces so the average citizen may become involved in decision making in their community and activities related to day to day life.
- ❖ Opportunity – The strategy will support programs that will reach out to people across the country to provide opportunity for all to participate in economic prosperity, and expanded political and social spaces.
- ❖ Market based democracy – The strategy seeks to support the reform objectives of the GOAJ to increase market oriented activities and to open space for more democratic society.

Opportunities

The working relationship between USAID and the GOAJ on assistance-related matters is generally a positive one. There are several opportunities that facilitate USAID's ability to achieve its development goals in Azerbaijan.

Symbolic of our close bilateral partnership, a critical positive is the GOAJ's decision in 2009 to co-finance portions of the USAID development program. For the last two years, the government has wire-transferred funds to the U.S. Treasury to provide a near one-to-one match to co-finance USAID-implemented economic growth and community development programs. As a result of co-financing, USAID's influence is greater than the budget appropriated to the assistance program. USAID will seek continued co-financing from the GOAJ in the Economic Growth sector.

Azerbaijani management of the macroeconomy is basically sound. During the financial crisis period of 2008-2009, the GOAJ carefully managed the exchange rate to avoid runaway inflation. The country has growing international reserves, a low level of international debt, and improved creditworthiness. The State Oil Fund, established in 1999 with assistance of the World Bank and the International Monetary Fund (IMF) is well managed, and its operations are transparent. This revenue is allowing Azerbaijan to invest heavily in economic infrastructure and in the non-oil productive sectors, driving future broad-based economic growth.

The GOAJ has stated its commitment to growing the non-oil sectors of the economy and enacting reforms that promote diversification. With USAID assistance, the government has begun to improve the enabling environment for private sector businesses, most noticeably in the areas of registering and starting businesses and streamlining procedures at the customs office. As a result, Azerbaijan's ranking in the World Bank's Ease of Doing Business Index has improved from 96th in 2008 to 66th out of 183 countries in the 2012 rankings. The country's very rapid adoption of international standards for anti-money laundering and countering terrorist financing, with USAID technical assistance, resulted in its removal from the Financial Action Task Force

(FATF)⁶ Watch List in 2010. Azerbaijan is also making slow but steady progress on the policy and institutional reforms necessary for World Trade Organization accession. These signs point to the likelihood of fruitful continuing cooperation in economic reforms.

There remains considerable opportunity for improving the health status of the Azerbaijani population to build on recent advances in health care reform. USAID has built positive relationships with the Ministry of Health, parliamentarians, and medical universities which have allowed the mission to play a leading role in informing the development of the systems, laws, curricula, and policies required to shift from outdated, ineffective health care practices to evidence-based medicine. Life expectancy at birth has surpassed that of the other Eurasian countries since 2002, but has not caught up with that of Eastern Europe's northern tier countries. Child mortality in Azerbaijan decreased from 16 per 1000 live births in 2000 to 11.3 per 1000 in 2009. Maternal mortality reduced from 37.6 per 100,000 births in 2000 to 24.3 to 100,000 births in 2009⁷. However, financial and other barriers impede access to health care and health services are of poor quality. Public health still lags in many areas, like tuberculosis (TB).

Azerbaijan's youth provide an opportunity for preparing the ground for lasting change. Azerbaijan's youth, many of whom are connected to the Internet, are interested in engaging on issues that matter to Azerbaijan's future.

Azerbaijan's small but growing group of NGOs and legal professionals is pressing for improved human rights, legal rights for women, and meaningful steps to combat corruption. Entrepreneurs, civil society, media, and citizens have limited opportunities to engage in Azerbaijan's political and economic space. This discourages innovations that might spur economic growth and the development of sustainable democratic institutions. However, there is a growing appreciation among some government officials in both Baku and the regions of the positive role that civil society can play in advancing social and economic issues. Similarly, some members of Parliament, with USAID assistance, are developing better relationships with their local constituents.

The GOAJ has made a public commitment to addressing corruption. The GOAJ has begun cracking down on corruption in customs, traffic police, health care providers, and a few other areas. President Aliyev frequently notes in his public speeches that ending corruption is an important goal. However, corruption remains a key challenge and discourages innovation and an engaged citizenry. Corruption is also a significant deterrent to investment, especially outside the energy sector.

The GOAJ is taking steps to strengthen Azerbaijan's education and health care institutions. The Soviet legacy left Azerbaijan with institutions that must be reformed to better serve the Azerbaijani population. Enhanced investment by the GOAJ in Azerbaijan's education and health care systems will be vital for the country's future success.

⁶ The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing, <http://www.fatf-gafi.org>

⁷ State Statistical Committee of Azerbaijan, <http://www.azstat.org>.

Host Country Development Program

The development goals of Azerbaijan are articulated in two main framework programs: the State Program on Poverty Reduction and Sustainable Development (2008-2015) and the State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan (2009-2013). The country has also adopted several sector-specific programs (e.g., agriculture, education, health and environment). National development goals include: achieving sustainable economic growth; strengthening democracy and governance; increasing the quality of and access to health services; protecting the environment; and improving the education sector.

The GOAJ has articulated development goals and partnered with multi-lateral organizations and bilateral institutions. However, in some cases the GOAJ lacks sufficient expertise to design and implement profound and sustained reforms. Institutional capacity development is needed to help the GOAJ achieve its reform goals.

Donor Environment

Since its independence, Azerbaijan has invited foreign governments and international organizations to be active in and help the country. The Azerbaijani government, dealing with armed conflict with a neighboring state and the resulting approximately 900,000 refugees and IDPs, limited financial resources, and a weak governance system at that time needed international assistance in order to develop and strengthen its statehood. The response of the international community throughout the years has been remarkable. Shortly after independence, aid primarily supported refugees and IDPs from Armenia and the Nagorno-Karabakh area. Since approximately 2000, the donors have shifted their aid from humanitarian assistance to development assistance. Donor assistance particularly targets the diversification of the non-oil private sector, the environment, health issues, energy, and civil society. Donor assistance in Azerbaijan is spread out across various sectors as shown in Table 1.

Table 1: Donor Engagement in Azerbaijan by Sector

	Economic Growth	Infrastructure	Energy	Democracy & Governance	Social	Humanitarian
ADB	X	X	X		X	
CoE				X	X	
EBRD	X	X	X			
EU	X	X	X	X		
Germany	X		X	X		
Japan	X	X	X		X	
Norway			X	X	X	
OSCE	X			X	X	
South Korea	X	X	X		X	
Switzerland	X	X		X	X	
United Nations	X			X	X	X
World Bank	X	X	X	X	X	

Although there is still no systematized database that shows aid flows to Azerbaijan, analysis of existing data reveals that the largest multi-lateral donors to the country are the Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Union (EU), Organization for Security of Cooperation in Europe (OSCE), United Nations (UN), and World Bank. The largest bilateral donors are the U.S., Germany, Switzerland, and Japan.

There is active coordination between donor agencies in Azerbaijan. Donors have divided responsibility for coordinating assistance at the sector and sub-sector level. Since 2010, the EU has coordinated socio-economic assistance. In 2011, OSCE took over coordination of good governance and democracy assistance. USAID has been active in consultations with donors, especially at the technical level. In 2010, USAID was responsible for coordinating activities in the public health sub-sector. Currently, an implementing partner of the EG Office is carrying out donor coordination in business and investment environment as well as in the agriculture sub-sectors.

The GOAJ also plays a key role in donor coordination. The Cabinet of Ministers and Ministry of Economic Development both have a role in coordinating donor activities in the country. The Ministry of Economic Development, with support from the Korean Government, began to implement a project to create and use an electronic database to coordinate aid in 2010.

Cross-cutting issues

The CDCS incorporates gender, youth, anti-corruption, disability inclusion, and public-private dialogue as cross-cutting activities.

Gender: Although comprehensive institutional and legislative frameworks are in place, gender equality and empowerment of females is a challenge in Azerbaijan. USAID will address gender by implementing key recommendation of USAID's February 2011 Gender Assessment for Azerbaijan, including: promoting women's access to Internet in the regions; fostering the participation of women in political processes and civil society activities; increasing gender sensitivity in activities related to credit, business association development and business support services; and supporting reproductive health programs.⁸

Youth: In 2010, people under 29 comprised 51.3 percent of the population⁹. Youth in Azerbaijan are one of the key elements of USAID's development approach. Each DO will focus foreign assistance resources on youth where appropriate to take advantage of their role as future leaders of the country and interest in promoting positive change in economic and governance areas. In the economic sector, USAID will provide support for young entrepreneurs and strengthen curricula in selected universities on private sector competitiveness and innovation, trade, agriculture, and anti-trust issues. In the democracy and governance sector, USAID will provide

⁸ See USAID Gender Equality and Female Empowerment Policy, March 2012 at http://transition.usaid.gov/our_work/policy_planning_and_learning/documents/GenderEqualityPolicy.pdf

⁹ State Statistical Committee of Azerbaijan, <http://www.azstat.org>.

new media training to youth, build the capacity of youth NGOs, and support young lawyers in developing advocacy skills.

Anti-Corruption: Corruption is an issue of concern in Azerbaijan. USAID’s February 2011 Anti-Corruption Assessment concluded that corruption cannot be eliminated quickly and reform will be a long-term process. Anti-corruption activities will be carried out in all areas of USAID assistance. USAID will work to strengthen the legal and regulatory framework to address corruption and promote opportunities for the private business sector. Community-based activities will create public awareness about the effects of corruption. Health activities will incorporate anti-corruption mechanisms in the financing and delivery of health care services.

In its efforts to improve transparency, Azerbaijan is one of the first countries to become compliant with the Extractive Industries Transparency Initiative (EITI)¹⁰. It has established a Multi-stakeholder Group to engage representatives of civil society in discussions with government and industry on the EITI process. At a recent meeting it was reported that the recommendations of the Public Unions Coalition¹¹ were accepted in its action plan and the goal of the plan is to increase transparency, improve communication with the public, and include all extractive industries under the EITI, not just oil and gas. These developments will lead to improvements in Azerbaijan’s track record on corruption and this will be reflected in the WBI Business Enterprise Survey and the World Economic Forum’s Competitiveness Index, both of which reported corruption as a major issue in its most recent report.

Disability: Social integration of and capacity to care for people with disabilities needs to be strengthened. People with disabilities typically face limited mobility and remain at home due to family shame and the lack of equipment and accessible facilities. Disabled girls face greater stigma than disabled boys and are disproportionately under-registered. Official statistics state that only 32.1 percent of all registered disabled children in the country are females.¹² Disabled women and girls lack access to adequate health services and find it almost impossible to get married. USAID/Azerbaijan adopted a Disability Inclusion Plan in October 2010, which states the Mission’s commitments toward disability inclusion. The objectives of the plan are to promote the participation and equalization of opportunities of individuals with disabilities in USAID country and sector strategies, and activity designs and implementation; to increase awareness of issues of people with disabilities both within USAID programs and in the host country; to engage other stakeholders and counterparts in fostering a climate of nondiscrimination against people with disabilities; and to support international advocacy for people with disabilities. USAID promotes the inclusion of people with physical or cognitive disabilities and those who advocate and offer services on behalf of people with disabilities throughout our programming. For instance, a new regional socio-economic development program will promote participation of

¹⁰ The EITI sets a global standard for transparency in oil, gas and mining. The EITI was launched by Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. The stated objective of the EITI is "to increase transparency over payments and revenues in the extractive sector in countries heavily dependent on these resources".

¹¹ On May 13, 2004, more than 30 Azerbaijani NGOs signed a Memorandum and announced the establishment of the Coalition "For improving transparency in extractive industries" in an effort to ensure public control over the revenues obtained through the exploitation of the country’s natural resources and their effective use.

¹² The State Statistical Committee of the Republic of Azerbaijan
<http://www.azstat.org/publications/azfigures/2010/az/004.shtml>

people with disabilities in community development activities. Social sector activities will target youth through efforts to increase employment opportunities for youth with disabilities and address the problems of disabled girls.

Public-Private Dialogue: Dialogue with the public sector will be supported across all sectors. E.g. USAID will conduct extensive consultations during program planning and design phases. The Mission will make sure that private sector is involved in implementation and evaluation stages of its activities, when it is relevant. USAID/Azerbaijan will also explore prospects to build public-private partnerships under each DO. Although USAID has solid experience in cooperating with private enterprises, particularly oil companies, public-private partnerships are largely undeveloped in Azerbaijan. During this strategy period (2012-2016) the Mission will actively explore opportunities for building Global Development Alliances (GDAs).

Goal Statement and Development Objectives

The overall goal of USAID assistance in Azerbaijan over the CDCS period is:

USAID assistance will support Azerbaijan's reform process, promoting competition and pluralism in society to lay the foundations for a sustainable market-based democracy.

This goal aligns with the development vision articulated in the State Program on Poverty Reduction and Sustainable Development (2008-2015) and the State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan (2009-2013). In these documents, the GOAJ has expressed a clear desire to undertake internal reforms to achieve sustainable economic growth; strengthen democracy and governance; and increase the quality of and access to public services. USAID's overall goal also supports the USG's key priorities of promoting Azerbaijan's political and economic reform and encouraging the country's integration into Euro-Atlantic institutions. The overall goal emphasizes political and economic *competition* and *pluralism* as factors necessary to strengthen Azerbaijan's institutions. Assisting Azerbaijan to strengthen its institutions promotes the GOAJ's own development goals and provides opportunities to benefit the Azerbaijani people.

This goal is largely measurable. The strength of democratic institutions is regularly monitored by international organizations and watchdog NGOs. Economic growth and diversification is tracked by the World Bank and IMF. The USG's own reporting, such as the USAID NGO Sustainability Index, will also provide a means to assess our success in promoting competition and pluralism.

USAID's overall development goal will be realized through three development objectives (DOs) as outlined in the USAID/Azerbaijan Results Framework chart (see figure 1):

- **DO 1. Improved investment climate in Azerbaijan;**
- **DO 2. Effective participation of diverse actors and institutions in the democratic development of Azerbaijan increased; and**
- **DO 3. Increased access to quality health care and targeted social assistance through strengthened practices and systems.**

Development Hypothesis – Causal linkages between the DOs and the Goal Statement

DO 1. Improved investment climate in Azerbaijan. The increased opportunity generated by an improved investment climate will promote competition and pluralism in society. An improved investment climate and the resulting economic growth will expand the middle class, a key stakeholder that typically supports increased reform and participation. By nurturing local dialogue on economic reform and helping to improve the enabling legislative and institutional environment in the economic sphere, DO 1 will contribute to creating a more competitive, pluralistic market-based democracy.

DO 2. Effective participation of diverse actors and institutions in the democratic development of Azerbaijan increased. Better engaged citizenry resulting from increased participation in Azerbaijan’s democratic development will expand competition and promote pluralism. Empowered civil society actors, strengthened governmental capacity to respond to citizen interests, and reformed institutions will expand the capacity of citizens and organizations to engage on important development issues. Supporting the reform process and increasing opportunities for non-governmental and government actors to participate in Azerbaijan’s democratic development path will lay the foundation for a sustainable, market-based democracy.

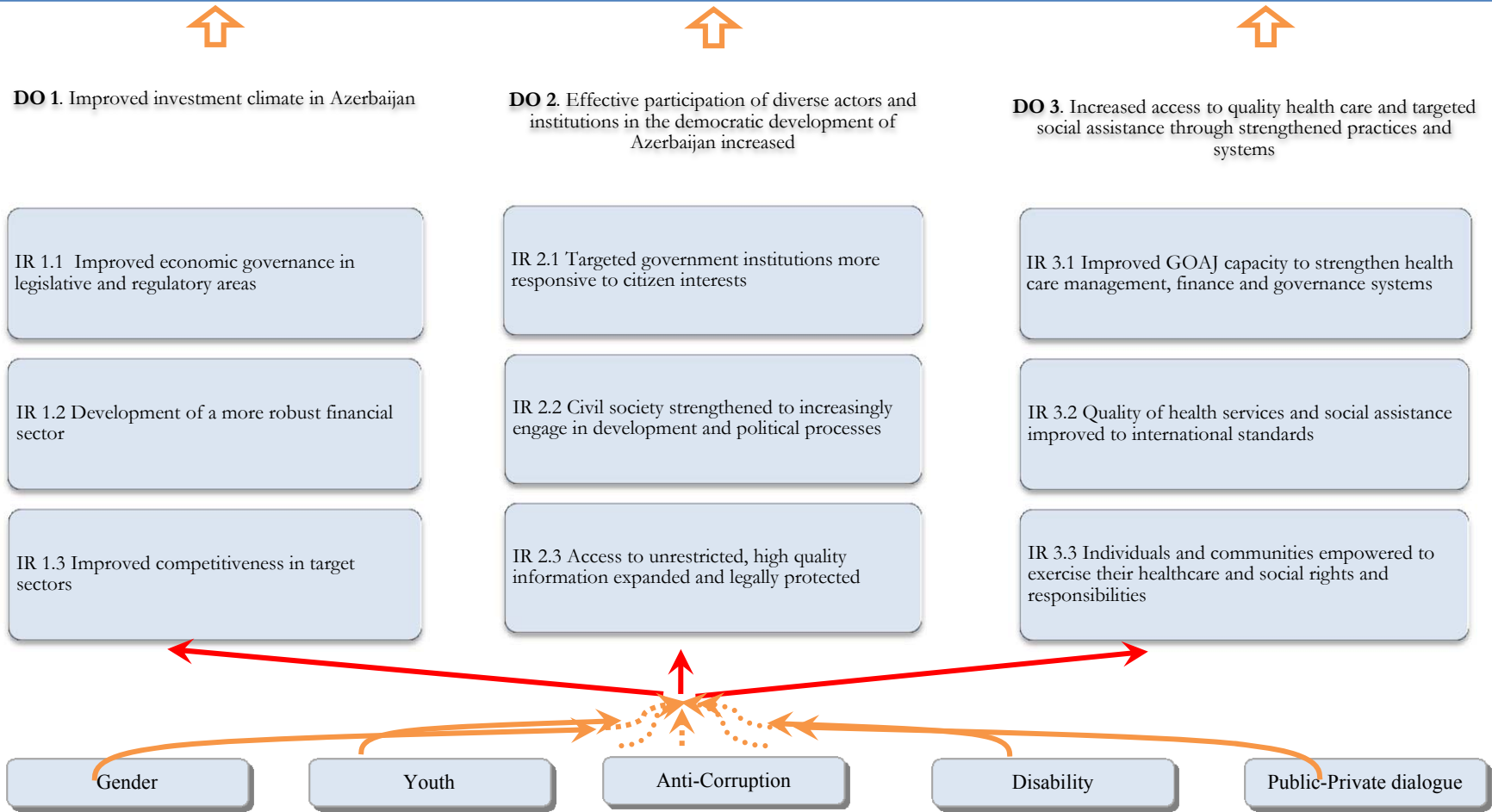
DO 3. Increased access to quality health care and targeted social assistance through strengthened practices and systems. Improved well-being of the Azerbaijani population from expanded access to health care and social services will contribute to increased pluralism and competition. By improving access to quality health services and strengthening equitable health care, the country and its citizens will be better able to reach their development potential. Improving Azerbaijan’s health, a critical component of a comprehensive socio-economic development strategy, will directly contribute to Azerbaijan’s socio-economic development and attainment of a sustainable, market-based democracy.

Linkages among DOs

The strategy’s development objectives are sector-focused, and are linked by a number of shared challenges and opportunities. All three sectors face the absence of competition and low levels of institutional capacity. For example, improving governance within the financial sector, increasing Parliament’s capacity to respond to citizen concerns, and enhancing the quality of health care financing systems will all strengthen institutional capacity. Encouraging opportunity and improving incentive structures in each DO will promote competition and expand pluralism. Supporting capable and empowered stakeholders at all levels of society will enhance the possibilities for reform. Increasing the participation of actors and institutions in the development dialogue will expand pluralism in society, thus strengthening the foundations for a market-based democracy.

Figure 1: USAID/AZERBAIJAN RESULTS FRAMEWORK

Goal: USAID assistance will support Azerbaijan’s reform process, promoting competition and pluralism in society to lay the foundations for a sustainable market-based democracy.



Development Objective #1: Improved investment climate in Azerbaijan

Background and Rationale for DO#1

Promoting broad-based economic growth in the non-oil sector is a high priority of the GOAJ's national development plan and is an objective shared by the USG. There is no question that growth in the oil sector has greatly benefited the national economy. In 1990, as the Soviet Union was collapsing, Azerbaijan's GDP was approximately \$8.85 billion.¹³ During the subsequent five years, Azerbaijan's economy declined dramatically (as was the case in all of the post-Soviet republics), hitting a low in 1995 of \$3.05 billion. From that low point, slow growth was achieved during the 1996 – 1998 period, and then growth accelerated. From 1998 – 2004 annual GDP growth averaged 8 – 10 percent, and during the period 2005 – 2007, annual GDP growth exploded to 25 – 35 percent.

Chart 2: Oil Production Profile for Azerbaijan

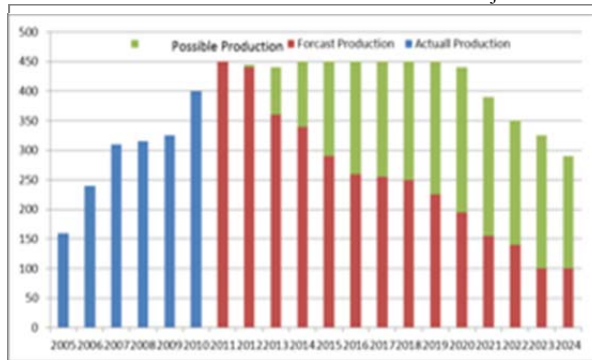
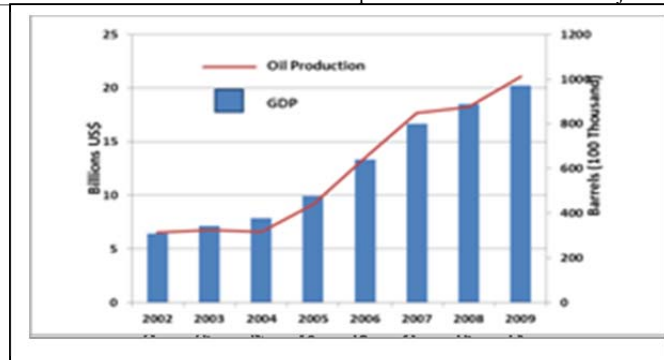


Chart 3: GDP and its relationship to Oil Production in Azerbaijan



IMF, Azerbaijan Country Report (May 2010), World Bank Development Indicators; 2009, U.S. Energy Information Administration, World Database 2010.

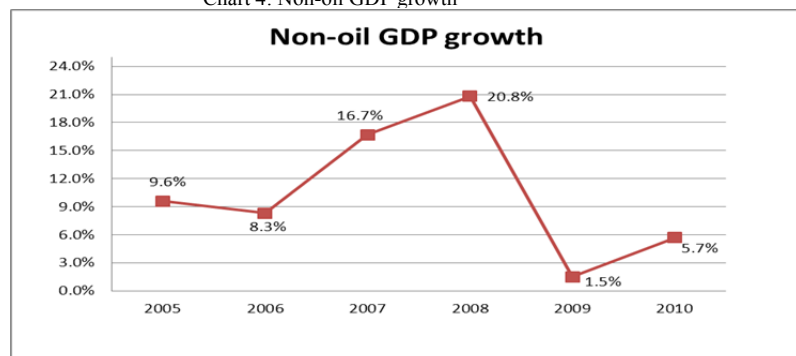
A large share of Azerbaijan's growth can be attributed to the oil sector, and to construction and other spending directly attributable to the oil income. The completion of a new pipeline to the Black Sea in 2005 and the tripling of the world oil prices gave Azerbaijan's economy a huge boost. The industrial sector (of which oil is the overwhelming majority) now accounts for over 60 percent of GDP, but employs only 12 percent of the labor force. One consequence of the large oil exports is the relatively strong currency and impact on the non-oil sector price competitiveness.

However, performance in other areas of the economy needs further development in order to achieve the nation's long term economic stability. The non-oil sector, though still weak relative to the industrial sector, is increasingly making up a larger portion of the economy. For example, Azerbaijan has experienced double digit growth in the non-oil sector, in light manufacturing, communications, chemicals, metals processing, and the service sectors including hotels and restaurants and trade. Agriculture expanded 4 percent a year for the past 5 years. In 2010, the non-oil sector grew at 7.9 percent and was the main driving force of non-oil GDP growth which

¹³ World Bank Data Bank, www.worldbank.org

accounted for 5.7 percent in FY 2010; a significant increase from the 2009 level of 1.5 percent. Development of the sector is also important given that it provides livelihoods for over 40 percent of the labor force - and probably 80 percent of the population outside of Baku.

Chart 4: Non-oil GDP growth



State Statistical Committee of Azerbaijan

Development Objective #1: Improved Investment Climate in Azerbaijan is intended to be interpreted broadly. “*Investment*” is more than just business equipment and facilities – it refers to all actions that can enhance productivity and improve individual livelihoods, including capital equipment, human resources, infrastructure, process improvements, and

adoption of international standards of competitiveness. The “*Investment Climate*” refers to all of the institutions, conditions, and practices in the private and public sectors that influence investment. There are two recognized international indexes that gauge investment climate: The World Bank’s “Ease of Doing Business” Report and the World Economic Forum’s “Global Competitiveness Index”. Azerbaijan has made efforts to improve the enabling environment for the private sector and to improve regulatory quality, and government effectiveness. It has also made significant improvements in registering and starting businesses and in enforcing contracts. As a result it moved up to position 66 out of 183 countries in the 2012 in the World Bank Doing Business Report^[1]; an improvement of 3 places compared to the previous year. In the WEF’s 2011-12 Global Competitiveness Index, Azerbaijan ranked 55th out of 142 countries. Azerbaijan’s greatest weaknesses are in its financial market development and goods market efficiency, due to limited local market competition, weak anti-monopoly regulations, prevalence of trade barriers, and burden of customs procedures. Strong areas include: macroeconomic stability, labor market efficiency, and capacity for innovation.

GOAJ has expanded public sector investment in roads, public water supply, rail, and power generation energy production which helps improve the quality of life of ordinary citizens. The expanded public investment in power generation capacity puts Azerbaijan in the position of being a regional exporter of power if the country can follow up with improved transmission and distribution capacity. Success will also depend on improvements in the governance structure such as legal and regulatory framework to provide modernized utility services for the domestic market as well as for export.

GOAJ has taken some steps to address corruption, access to finance for SMEs, tax regulations, and agricultural export diversification. Further efforts are needed in these areas to support future economic growth and strengthen Azerbaijan’s ability to accede to WTO. In the private sector, rule of law and enforcement of the legal framework to facilitate business requires further

^[1] World Bank Publications: Doing Business, <http://publications.worldbank.org>

development. Safeguards are needed to ensure property rights are developed and enforced. Strengthening public and corporate governance would also foster economic growth. Small and medium sized enterprise credit opportunities, business support services, and association building activities are male dominated. Female entrepreneurs make up 16 % of all business owners. Women's lack of property ownership leads to inferior chances of obtaining credit¹⁴.

Development Hypothesis



Attention during the strategy period will be on improving the investment climate in Azerbaijan. In order to achieve this objective EG activities will focus on: 1) making improvements to the economic governance in legislative and regulatory areas, 2) supporting the development of a more robust financial sector, and 3) improving the competitiveness of private sector businesses. These efforts will help to develop confidence in the economy and in the country overall and lead to improved investment climate. It will stimulate increases in investments, technologies and improved business processes that will result in improved competition and pluralism.

Improving the overall legal and regulatory environment will provide opportunities for private sector growth. Supporting the development of a more robust financial sector, which can meet the needs of private sector businesses while adhering to international best practices in governance, oversight, and anti-corruption practices, is important. It will provide assurances to businesses and entrepreneurs that their finances are protected, that sufficient and relevant financial products are available, and that affordable and easily accessible access to financial products are available to meet business needs. By improving the competitiveness of targeted sectors through improvements in quality, quantity, and other efficiencies, local businesses will be able to compete in local, regional, and world markets thereby increasing opportunities to generate profits, expand, and create more job opportunities in the non-oil sectors of the economy.

It is anticipated that USAID economic growth interventions will help diversify the non-oil sector and open up new market opportunities for farmers and SMEs to engage in higher value activities and improve economic conditions, particularly among populations outside of Baku. A more open and transparent business environment will improve investor confidence and reduce/remove the extra operating costs and burdens associated with the regulatory inefficiencies. Improvements in the international trade environment will open up new export markets in Europe,

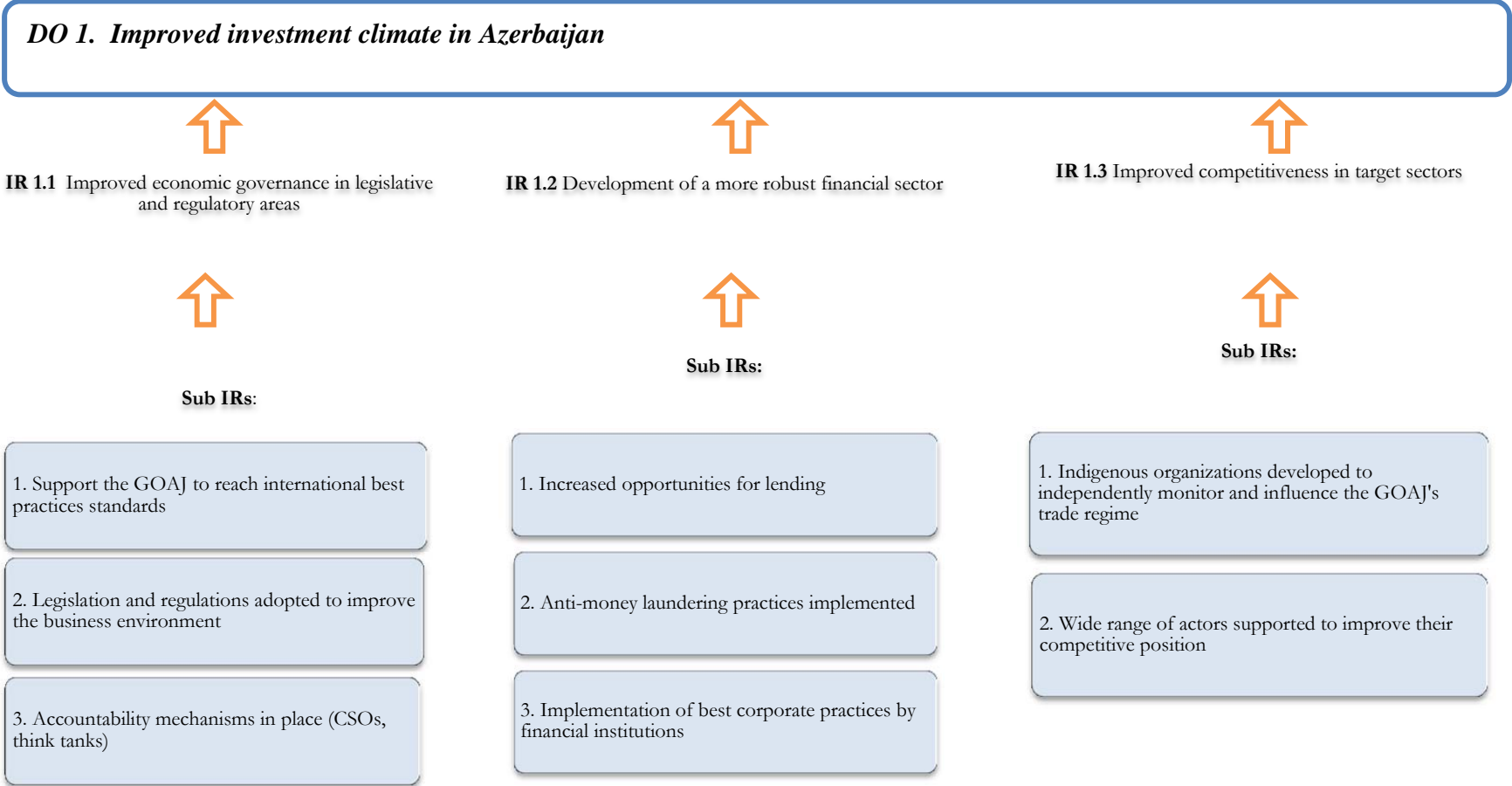
¹⁴ UNDP *Gender Attitudes in Azerbaijan, Trends and Challenges*, 2007, p. 31.

Russia, and the Middle East, and enhance the prospects for foreign investment in Azerbaijan. By offering knowledge of and access to improved and more efficient agricultural production techniques, assistance to improve quality standards, introduction of new, high value crop varieties, and improving the handling, packaging, and storage of products, key productive sectors will become more competitive.

Economic growth interventions will also seek to mitigate corruption. The interventions will focus on improving the legislative and regulatory framework, institutional strengthening, and offering policy advice to the Government of Azerbaijan. The work will include, for example, assisting in the implementation of the regulations for Customs Code, drafting the Competition Code, training the staff of Public Investment departments in GOAJ on cost-benefit analysis, supporting the Customs Committee in post-clearance audit, and improving tax policy and tax code. USAID also plans to involve civic engagement into the economic reform process to enhance ownership of the process by the local actors and nurture the habit of public-private dialogue.

Improving the business climate will not come easy. Consequently, a key part of the EG program for Azerbaijan will be public initiatives aimed at capacity building and raising awareness about economic reform issues. These efforts will seek to strengthen NGOs and economic think-tanks' ability to undertake and disseminate research demonstrating the benefits of improvements to the business climate; utilize television and other media dissemination initiatives to make this knowledge available to the overall population; and systematically strengthen CSOs, business development service providers, educational institutions, and governmental organizations to institutionalize improvements and processes within Azerbaijan and to make them sustainable.

Figure 2: RESULTS FRAMEWORK FOR DO 1



Details of the Intermediate Results

IR 1.1 Improved economic governance in legislative and regulatory areas

Although progress has been made in recent years, key barriers to competition and trade still exist in the legislative and regulatory reform area. Through its program activities, USAID expects to achieve broad based understanding of the costs of barriers to trade and private sector development. This understanding will support reform of the legislative and regulatory framework, thereby improving the environment for business.

IR 1.1.1 Support the GOAJ to reach international best practices standards

The economic growth program area will support the GOAJ to reach international best practices standards. This could include WTO accession and membership in the Egmont¹⁵ group, depending upon the priorities of Azerbaijan. Implementing best practices standards will further integrate Azerbaijan into international systems and strengthen their global competitive position.

IR 1.1.2 Legislation and regulations adopted to improve the business environment

USAID will support the GOAJ's efforts to implement legislation and regulations to improve the business environment. USAID will assist the GOAJ to develop and implement international standards of transparency and accountability. We will work with the government to set up appropriate monitoring and evaluation mechanisms within the GOAJ on legislative and regulatory performance. USAID/Azerbaijan will seek to ensure that women are included in program activities that address improvement in the current business environment.

IR 1.1.3 Accountability mechanisms in place (CSOs, think tanks)

USAID will support production and dissemination of economic analyses and economic knowledge, along with capacity building of CSOs and think tanks, with a goal of developing third party capacity to engage in the formulation and revision of economic policy. USAID/Azerbaijan will support CSOs dealing with women's economic activities.

IR 1.2 Development of a more robust financial sector

Financial sector programs contribute to increased productivity in the non-oil sector by improving the incentives among commercial banks, microfinance institutions, and leasing agencies to lend/lease to a growing number of SMEs, especially in agribusiness. Targeted technical/training support will be provided to improve the implementation of financial services and expand access to finance among small and medium sized businesses. Continued assistance to the Central Bank of Azerbaijan (CBA) will enhance the capacity of the Financial Investigation Unit and support related stakeholders with anti-money laundering, risk-based supervision of commercial banks, and strengthening the internal management of the CBA.

¹⁵ The Egmont Group is an international group of Financial Intelligence Units (FIU) that provides a forum for the FIUs to improve cooperation in the fight against money laundering and financing of terrorism.
<http://www.egmontgroup.org/>

IR 1.2.1 Increased opportunities for lending

USAID activities will increase lending opportunities, especially to SMEs. The financial services industry is inadequate to meet the needs of private sector development. This results in limited availability of financing for SMEs, which face difficulties in attracting investment. SMEs must rely on state lending sources or the national banking sector, which have extremely high interest rates that reflect the risk factors perceived to exist in the economy. Both sources are weak and inadequate to serve SME needs. Though governance over banking improved over last years, it is still considered to be weak. Currently, this increases risk for banks and investors. Additionally, there is great uncertainty regarding resolution of disputed contractual obligations. USAID will address gender sensitivity in activities related to credit and lending to help women benefit from increased opportunities.

IR 1.2.2 Anti-money laundering practices implemented

USAID will assist the Central Bank of Azerbaijan (CBA) and the State Committee on Securities (SCS) to implement legislation on anti-money laundering and counter-financing of terrorism (AML/CFT). Additionally, USAID will promote increased transparency in the financial sector, increasing governance of the banking sector through a stronger, more independent banking supervision function.

IR 1.2.3 Implementation of best corporate practices by financial institutions

Corporate best practices include knowing how to adhere to international standards and improve corporate shareholder rights. Implementation of these priorities help firms and financial institutions remain competitive. An illustrative activity within this sub-IR is to assist in the adoption of international best practices in risk-based oversight and supervision for private sector banks. USAID will assist in promoting, developing, and implementing risk management based oversight of banks and portfolios, sound SME outreach policies, inclusive products, and transparent reporting mechanisms.

IR 1.3 Improved competitiveness in target sectors

Improving competitiveness in target sectors will help diversify the non-oil economy. Azerbaijan has much to gain from increased exports in the agricultural sector, which provides livelihoods to over 40 percent of the population. Program activities will develop the ability of Azerbaijanis to conduct economic and cost-benefit analyses on trade legislation and regulations. Disseminating these analyses will expand information available to a wider pool of actors engaged around these issues. Women are actively engaged in the agricultural sector and will benefit from this activity.

IR 1.3.1 Indigenous organizations developed to independently monitor and influence the GOAJ's trade regime

USAID will provide capacity building for CSOs and think tanks in order to develop their capacity to engage in the formulation and revision of economic policy. USAID support will empower and train think tanks and CSOs to improve the quality of their dialogue with the government on major reform issues and thereby improve local discourse on development options for Azerbaijan. The resulting expanded public dialogue will

provide further support for accountability and transparency in the economic development of Azerbaijan. USAID/Azerbaijan will build the capacity of women's CSOs.

IR 1.3.2 Wide range of actors supported to improve their competitive position

Program activities will improve access to industry and sector level market information and best practices; develop and disseminate widely expertise through supplementing curricula in state and private universities; and support the development of professional associations and alliances. USAID/Azerbaijan will seek to involve professional associations and alliances which unify women conducting economic activity.

Illustrative Activities

IR 1.1 Improved economic governance in legislative and regulatory areas

Illustrative activities include:

- Contribute to formalizing a process of general public and private sector feedback into proposed legislative processes at the ministerial level.
- Draft business-friendly legislation and amendments to current legislation.
- Calculate and understand the impact of current practices and new legislation on the economy.
- Assist the GOAJ to implement its non-oil sector development strategy.
- Support implementation of best practices and standards in trade and investment.

IR 1.2 Improved governance within the financial sector

Illustrative activities include:

- Increase understanding of technical issues and risks associated with lending and leasing among targeted commercial banks, non-banking financial institutions, leasing companies, and regional business development services.
- Provide technical assistance to GOAJ policy makers and stakeholders in financial institutions, the business community, and academia to understand current legislation and needed reforms in the financial sector.
- Together with the Financial Monitoring Service and the State Committee on Securities, work toward full implementation of an AML/CFT system in the country.
- Increase understanding of the new competition code to ensure private sector actors fully understand the new law and implications of not following it.

IR 1.3 Improved competitiveness in target sectors

Illustrative activities include:

- Work with civil society organizations to develop economic research and policy papers to quantify the costs and inefficiencies of current economic activities that provide barriers to trade. Facilitate a broad-based public-private dialogue around these issues.
- Build a broad-based outreach to GOAJ institutions, the business community, and the Azerbaijani public regarding legislation to improve the business environment needed to develop trade.
- Develop national capacity to analyze and report on market opportunities in domestic and nearby foreign markets for increased trade.
- Provide training and technical assistance to key businesses, farmers, and associations to improve the competitiveness of targeted value chains.

Geographic Focus and Target Beneficiaries

Assistance will focus on improving the national investment and business environment through the reduction or elimination of technical, administrative, trade, and financial barriers and constraints. Ultimately, the DOI programs will focus on non-oil sector growth, particularly in agriculture, which will benefit micro-, small, and medium enterprises in Azerbaijan. Specifically, the agricultural emphasis will benefit rural regions.

Cross-cutting issues for DO#1

Economic growth activities will seek to ensure that practices or regulations designed to improve the business enabling environment are also favorable for women. USAID will increase gender sensitivity and gender balance in activities related to credit, business association development, and business support services. EG activities will assist the development of leadership potential of, and mentoring and networking opportunities for businesswomen. USAID will work closely with CSOs and professional associations which unify businesswomen in order to increase their capacity. The economic portfolio will target youth when encouraging discussion on competition, trade, agriculture, and anti-trust issues as part of enhancing curricula in target universities. Economic growth activities will address issues of corruption through institutional and systems improvements such as elaboration of new legislation. Within the economic growth area, public-private dialogue will be enhanced through increased transparency in legislative processes by helping Azerbaijanis to institutionalize mechanisms that incorporate feedback from the general public and private sector into their economic rule-making process. Support to trade and farmer associations, economic think tanks, and public discussion of the economic cost of corruption and barriers to trade will extend public-private dialogue further.

AID Effectiveness Principles

USAID will collaborate with other donors through participation in donor working groups aimed to support economic growth, including sub-sectors on the business and investment environment and agriculture. We will explore opportunities to work more collaboratively or more multi-laterally with other donors.

Development Objective #2: Effective participation of diverse actors and institutions in the democratic development of Azerbaijan increased

Background and rationale for DO#2

Under the Soviet system, political and economic power was concentrated and held tightly by a small circle of party elite. The independent power of state institutions, such as the judiciary and legislature, was restricted. Non-state political actors such as civil society, independent media, and opposition political parties did not exist.

Since independence, Azerbaijan has embraced some governance and political process reforms. For example, parliament and judiciary were established in contemporary forms.

Civil society and political parties emerged. The election institutions were set up. The number of newspapers and TV and radio stations dramatically expanded.

Successive Azerbaijani leaders since independence have committed the nation to meeting the requirements of a number of Western institutions, like the Council of Europe (CoE), EU Eastern Partnership, and the Organization for Security and Cooperation in Europe (OSCE). As part of these international commitments, Azerbaijan has committed itself to uphold the rule of law, respect for human and civil rights, and the establishment of democracy. Notwithstanding its formal commitments to democracy, implementation of these democratic principles is uneven.

Strengthening meaningful competition is critical to Azerbaijan's democratic development. Azerbaijan is characterized by a strong executive branch in which most of the power is consolidated in the Presidency. Traditional media and opposition political parties face capacity limitations and have inadequate knowledge to become effective participants in the political sphere. Civil society organizations have insufficient capacity to effectively organize and advocate for their interests. The legislative branch is often reactive, undertaking legislative initiatives proposed by the executive branch, rather than drafting legislation itself. Rule of law and governance/administrative effectiveness could be strengthened. Women are not adequately represented in the government, politics, and in the leadership of civil society organizations.

Development Hypothesis

Attention during the strategic period will be focused on promoting effective participation of diverse actors and institutions in the democratic development of Azerbaijan. In order to achieve this result the following need to be developed: 1) government institutions that are more responsive to citizen interests; 2) capable civil society actors and organizations that are able to



engage with government and citizens; and 3) widespread citizen access to high quality, unrestricted news and information. We will focus on reforms that support government units and agencies capable of institutionalizing more participatory and transparent mechanisms and procedures. USAID will support the Parliament in becoming more representative, responsive and transparent. USAID will work with targeted government units in their efforts to increase transparency and accountability in the provision of public services through e-governance and other mechanisms; and cooperate with the Ministry of Economic Development to develop and adopt formal mechanisms for consulting citizens on resource decisions.

Reforms in the civil society legal enabling environment are required to strengthen civil society actors. Our programs will work to enhance legislative and procedural changes so that civil society organizations can register without excessive requirements; contract with the government for services to expand its funding base and role in development; and receive funds from local businesses more easily as a result of tax incentives for business who contribute to CSOs. As a result of our efforts, 30 sustainable CSOs working across all DG program areas will operate in Baku and the regions outside the capital.

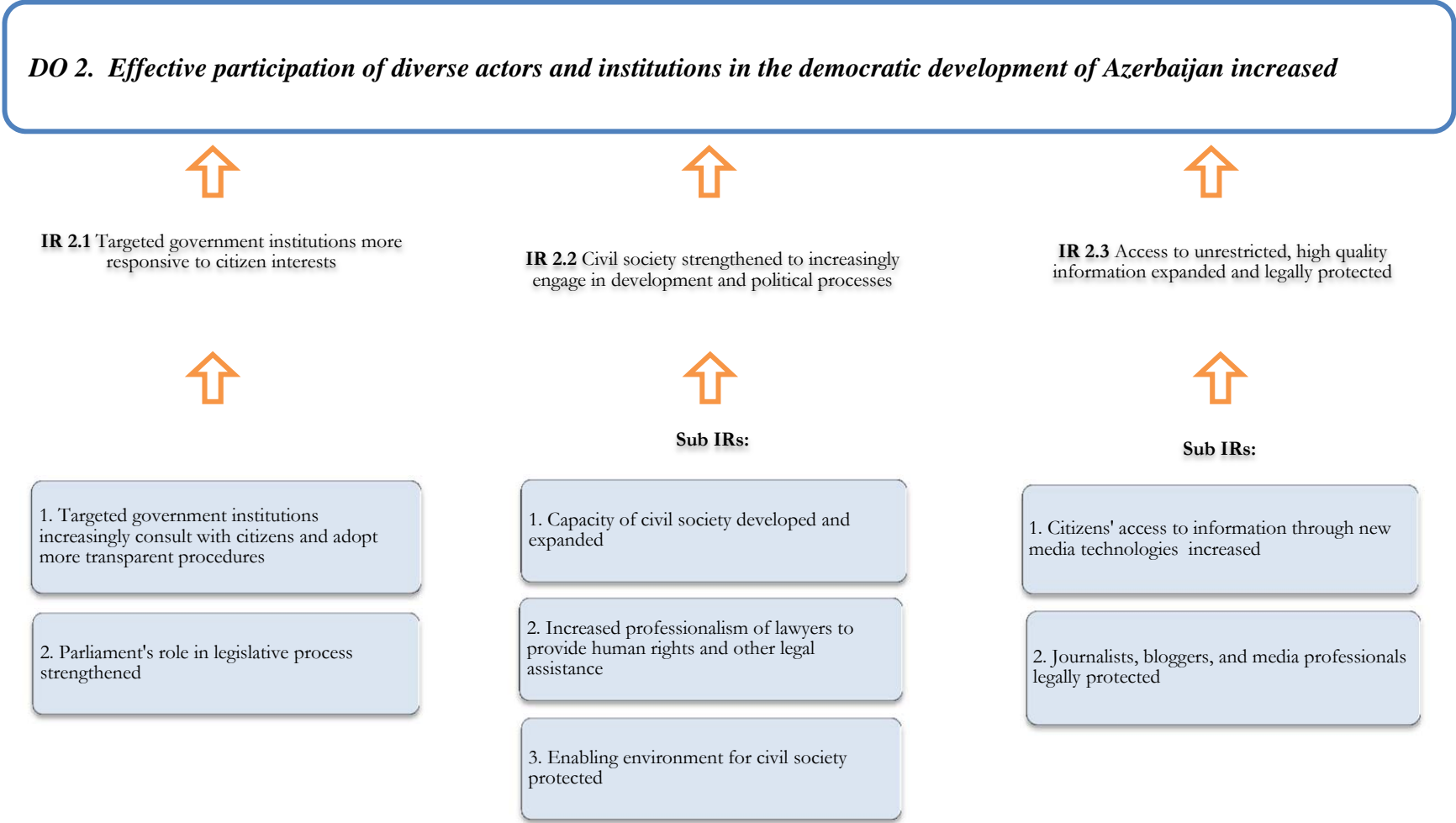
Increased access to high quality, diverse information would enhance the ability of Azerbaijanis to understand and discuss important issues. Ninety percent of Azerbaijan's public relies on Azerbaijani TV as its main news source. Even though cable TV is widely available, most citizens have little access to independent news and analysis about Azerbaijan. New media presents an opportunity to increase citizen access to information and analysis. As a result of USAID efforts, 20 New Media Centers in regions outside of Baku will be sustained and operated by local organizations.

As explained earlier, sectors where USAID's democracy and governance portfolio will work are targeted government institutions, civil society and new media. If successful, this approach will increase participation and competition by expanding the role and influence of both governmental and non-governmental actors and institutions. We will support activities that enhance linkages between democracy and economic growth. Lack of competition in the economy and politics are two sides of the same coin. USAID can make significant improvements in both areas by



working together. To focus our efforts, USAID prioritized its interventions and disengaged from a number of activities. As a result, we will provide no assistance to judicial sector government institutions. Donors such as the World Bank and EU have substantial judicial sector programs and the U.S. Department of Justice is providing training in these areas as well. We will no longer support election administration since the government has the technical capacity to conduct free and fair elections. We will not provide assistance for traditional political party strengthening activities at this time.

Figure 3: RESULTS FRAMEWORK FOR DO 2



Details of the Intermediate Results

2.1 Targeted government institutions more responsive to citizen interests

USAID assistance will support executive and legislative institutions to be more responsive to citizen interests. Through support to government actors, USAID will create greater opportunity for both governmental actors and non-governmental actors to meaningfully and consequentially participate in the democratic development of Azerbaijan. Assistance will only be provided in areas in which we have a common interest, such as anti-corruption and enhanced transparency, citizen participation, legislative strengthening, and legal education to enhance democratic development. USAID/Azerbaijan will take into account gender considerations when conducting activities with government institutions.

IR 2.1.1 Targeted government institutions increasingly consult with citizens and adopt more transparent and accountable procedures

USAID will support more transparent and accountable procedures and mechanisms in targeted government units as part of systemic efforts to reduce corruption and increase public participation in governance. USAID will support efforts that give citizens a more influential role in anti-corruption strategy implementation. We will also encourage greater transparency in the legislative process through support to both executive and legislative branch institutions and actors. This may also include support to public universities, including law schools, to help them become more effective and accountable to citizens.

Assistance to the Ministry of Economic Development and Council on State Support to NGOs will enhance citizen participation in the implementation of the government's State Project on Socio-Economic Development of Azerbaijan's Regions. We also will work with Baku State University and State Anti-corruption Commission to enhance citizens' role in addressing corruption issues and supporting transparency and improve legal education. Activities under this sub-IR will actively involve women's participation in governance.

IR 2.1.2 Parliament's role in legislative process strengthened

USAID will strengthen Parliament's capacity to engage the public, represent constituent interests, and pass laws which advance citizen interests. To start, we will conduct a mapping exercise, in consultation with Members of the Parliament, to identify what kinds of assistance would be most useful to them, such as legislative drafting, constituency services, among others, and assess probable impacts. Currently, women make up 16 % of all Parliamentarians. USAID/Azerbaijan will include female members of the Parliament in its activities.

IR 2.2 Civil society strengthened to increasingly engage in development and political processes

IR 2.2 will build on previous USAID programs that helped create an environment that fostered dialogue and cooperation between the government and civil society. USAID will seek to expand the breadth, depth and effectiveness of non-governmental actors and institutions. Within this IR USAID/Azerbaijan will particularly promote women's engagement in development and political processes. The Mission will actively involve women in community development activities.

IR 2.2.1 Capacity of civil society developed and expanded

USAID will strengthen the organizational and technical capacity of non-governmental organizations so that they can be more effective. We will prioritize the following areas:

- **Human rights** NGOs that champion human rights and civil liberties.
- **Women's organizations**, including those working toward greater equality and opportunity for women; and facilitating their engagement in the political process.
- Youth organizations
- Organizations championing transparency and anti-corruption.
- Engage citizens in the **socio-economic development** of their regions. USAID activities in this area will give voice to citizens in making small scale infrastructure decisions, as well as engage NGOs in advocating for better allocation of government funds for regional development. We will also encourage meaningful participation of women and youth in development. Should resources be available, we will support citizen participation in other areas of USAID strategy, such as health and economic growth.
- Transparent **elections** and support for independent election observation groups to monitor the elections.

USAID support will include technical assistance, trainings, and resource provision required to develop organizations. USAID will support sustainable local capacity by increasing the number and funding of local NGOs that serve as implementers of the DG assistance program. Capacity development assistance will be provided to those local implementing organizations to address financial, organizational, technical, or performance measurement shortcomings that might otherwise preclude them from receiving a direct USAID (or other donor) contract or grant.

IR 2.2.2 Increased professionalism of lawyers to provide human rights and other legal assistance

USAID will increase the professionalism of lawyers and human rights defenders, either individually or organized as NGOs to improve their ability to provide legal services to the public. This includes strengthening public access to NGO legal assistance in the regions and professional development of young lawyers and law students. USAID will also support other methods to raise awareness of citizen's rights such as informal education, new and traditional media, and public outreach.

IR 2.2.3 Enabling environment for civil society protected

USAID will support legislative and procedural reforms to enhance the role of and space for civil society. USAID-funded activities will educate NGOs on NGO-related legal issues and support their efforts to advocate for and enhance the role of and space for civil society. Assistance will also be provided to the Council on State Support to NGOs, Ministry of Finance and possibly Ministry of Justice to improve the registration process and legal enabling environment for NGOs. We will also support Members of Parliament in drafting legislation that enhances the role of civil society such as making public input a requirement of the legislative drafting process. Should an opportunity arise to work with the GOAJ to improve other national policies or procedures to enhance freedom of association, or greater political freedoms, we will evaluate those opportunities. If deemed promising, we will support them as well.

IR 2.3 Access to unrestricted, high quality information expanded and legally protected

USAID programs will seek to improve the quality and accessibility of news and information produced, distributed, and consumed throughout Azerbaijan. USAID will also seek to improve the underlying legal and operating environment in which the media operates. USAID will provide limited assistance to content development for regional television, or other traditional media, to ensure that citizens can access relevant local news and information. Moreover, programs will seek to develop the journalistic skills and organizational capacity to develop quality news in the future. USAID/Azerbaijan will seek to ensure that women's access to information is increased.

IR 2.3.1 Citizens' access to quality and quantity of information available through new media technologies increased

The internet is an important source of news and information in Azerbaijan, yet access in rural areas, especially among women, and the quality of information is limited. USAID will support the creation and expansion of community information centers, including providing internet and new media training for community members in the regions outside of Baku. The centers and training are particularly important for women, many of whom are excluded from commercial "internet cafés" due to social norms.

IR 2.3.2 Journalists, bloggers, and media professionals legally protected

USAID will also support media legal and advocacy organizations to protect the legal and regulatory framework for journalism and also provide legal support direct to journalists, bloggers, and media professionals.

Illustrative Activities

IR 2.1 Targeted government institutions more responsive to citizen interests

Illustrative activities include:

- Providing technical assistance to Parliament to increase its ability to conduct legal research needed in developing legislation.
- Supporting Member of Parliament Assistants (MPAs) who will work with constituents to inform and develop draft legislation that responds to local and regional issues and needs.
- Support law schools to establish new and strengthen existing programs and enable students to gain practical legal skills as part of their formal legal training.

IR 2.2 Civil society strengthened to increasingly engage in development

Illustrative activities include:

- Capacity development of youth NGOs providing legal protection to civil society organizations including NGOs, watchdogs, and other advocacy groups.
- Strengthening legal provisions that ensure space for non-state organizations to effectively participate in the political sphere. Support to young lawyers to assist them in becoming advocates and therefore increasing the amount of legal assistance provided to the public.

IR 2.3 Access to unrestricted, high quality information expanded and legally protected

Illustrative activities include:

- Provision of Internet and training in Internet and social media techniques.
- Support to new media technologies.
- Support to civil society organizations to develop and implement strategies for increasing public access to information.
- Development of informative content adapted to new media platforms that appeal to youth.
- Legal protection of media.

Geographic Focus and Target Beneficiaries

Our program will have a significant emphasis on the regions where civil society is less active than Baku. Some targeted national level assistance is envisaged as well. Targeted beneficiaries are government, civil society, media and citizens.

AID Effectiveness Principles

USAID will collaborate with other donors through participation in donor groups on media, democratic institutions and human rights. We will explore opportunities to work more collaboratively with other donors, especially with respect to support of human rights and legal assistance.

Cross-Cutting Issues for DO #2

The Democracy and Governance (DG) office will support women's organizations, including those working toward greater equality and opportunity for women. USAID/Azerbaijan will promote participation of women in political processes and civil society activities and encourage active civic engagement among women. The Mission will contribute to strengthening the effectiveness of existing institutional and legal mechanisms on gender equality.

USAID/Azerbaijan will support women through anti-trafficking activities. Victims of domestic violence will be supported through activities aimed at strengthening access to justice.

Assistance will support leadership training for young men and young women on civic education, exposing young people to the principles and practices of democracy and rule of law. Support will also be provided to youth-led institutions. Community-based activities will enhance public awareness about the effects of corruption. DG will incorporate disability inclusion throughout the portfolio, where relevant. DG will specifically promote public-private dialogue within the program aimed at regional development.

Development Objective #3: Increased access to quality health care and targeted social assistance through strengthened practices and systems.

Background and rationale for DO #3

Since independence, Azerbaijan has made progress in reforming some aspects of the highly centralized and inefficient Soviet health model. However, further improvements are necessary to improve efficient allocation of resources in areas such as primary health care delivery in rural areas and to create sufficient incentives for practitioners to provide medical care that meets international standards. Azerbaijan's national health system continues to require support to improve key health sector components, such as policy and strategy development and implementation, financing, health information technology and management, and medical training.

More attention and investment is also needed to address high rates of multi-drug-resistant (MDR)-TB and infant and child mortality as well as low modern-method contraceptive prevalence rates. Azerbaijan ranks second among the 27 high burden countries for MDR-TB. Lack of sufficient diagnostic equipment and training, inadequate provision of drugs, and challenges in establishing good community-based treatment programs are the three principal reasons for the high MDR-TB rates in the country. Because the bacillus that causes TB spreads across boundaries, Azerbaijan's high MDR-TB rate represents not only a national public health challenge, but an international one as well.

Although Azerbaijan has made substantial progress during the last decade in reducing its under-five and infant mortality rates, they are still above comparable rates in neighboring South Caucasus countries and considerably above those of the averages for all upper-middle income countries. (Based on its per capita GNI, the World Bank now classifies Azerbaijan as an upper-middle income country.) Principal reasons for these high rates include the concentration of health facilities and health professionals in urban areas and lack of good family medicine and community-based care in the countryside.



High abortion rates and low contraceptive prevalence rates remain common in Azerbaijan. Although slightly more than one-half of married women of reproductive age used a contraceptive method, only 14 percent of them used a modern method. Despite the relatively low use of modern contraceptive methods, 23 percent of married women wanted to space or limit their

births but were currently not using any form of contraception.

Health reform began to move forward in 2006 with the establishment of an inter-ministerial commission charged to develop policies to improve the quality of health care. Its mandate included creating policies to restructure the health system and implement compulsory health insurance. That same year, the Ministry of Health (MOH) established the Public Health and Reform Center (PHRC) to advise the Minister on health policy, strategic planning, and the health reform process. Also in 2006, the MOH prepared a Health Sector Reform Concept Paper, which formed the basis for health sector reform and modernization of the health system.

Despite progress, implementation of health reforms has faltered in recent years. The State Agency for Mandatory Health Insurance (SAMHI) has yet to be established. Practitioners are generally hesitating to use evidence-based clinical practice guidelines because of a lack of professional incentives to adopt them and insufficient pressure by the health authorities to enforce internationally-recognized standards of care. The public's understanding of the health reform agenda is limited and consumers' role in advocating for health reform is not widely accepted or understood.

USAID is building upon investments made during the last five years to institutionalize health system strengthening improvements to improve access to quality health care. Progress made in the preparation of legal and regulatory documents and health policy has laid the foundation for improved health services based on evidence-based medicine and international standards. USAID's work with the MOH includes introducing health policies and strategies, clinical-based guidelines, medical practitioner training, and supportive supervision piloted at the district level. Recent projects have also engaged non-governmental actors in the commercial sector and media to advance public awareness of health issues. Noteworthy, USAID's partners have supported community groups and individuals to improve access to and demand for information on reproductive health and family planning.

USAID will continue to provide technical expertise that will strengthen the national health system. The focus will be on institutionalizing key health reforms in the areas of (1) strengthening the governance capacity of the Ministry of Health to direct and implement health reform initiatives; (2) improving the mobilization, allocation, and use of health care resources; (3) improving the quality of health services; and (4) empowering individuals and communities to exercise their health care rights and responsibilities.

Development Hypothesis

Attention will be on strengthening and institutionalizing the[□] activities and results realized during earlier periods of assistance. Development experience has shown that strengthened health care systems with good stewardship, enhanced transparency, and accountability that follow international best practices (including more efficient allocation of resources, financial and information management, and professional standards of health care) will lead to better managed health care systems, which in turn should lead to better health outcomes and impacts. These activities improve the supply of health care and social assistance available to the public.

Empowering patients and their families by building the capacity of advocacy associations and educating the public on health care will strengthen the demand for good health care. Increased information available to the public about health care issues will promote acceptance of reforms. This is necessary to keep the reform process on track.

These activities are embraced by the Global Health Initiative, which emphasizes health system strengthening, integration, a woman-centered approach, multilateral participation, and country ownership. USAID's Health Program will continue to seek results under the program elements of Reproductive Health/Family Planning, Maternal and Child Health, and TB. Program activities will encourage the integration of reproductive health/family planning, maternal and child health, and TB, which will in turn contribute to the accomplishment of significantly greater efficiencies in the health system. Investments in health and social assistance amplify investments in good governance, democracy, and economic growth. Establishment and institutionalization of a quality, affordable health care system that meets the needs and demands of the people reflect a government's ability to enhance public well-being. Additionally, good health enhances the productivity of a workforce, which in turn accelerates economic growth.

This DO will have a shorter time period than the rest of the strategy. USAID funding for the sector assistance will cover activities through September 2013 and USAID support for the social assistance sector will be subject to the availability of funds. We will seek to ensure that USAID activities leave a lasting impact on the health care and social assistance sectors as we exit from them. Working with the E&E and Global Health Bureaus, USAID will craft a detailed phase-out plan in FY 2012 that will ensure that USAID investments in the health sector will be sustained by the GOAJ and other development assistance partners. To that end, the Mission will develop a health sector map that describes all health activities in Azerbaijan by implementing partner, duration, geographic area, level of funding, and source of funding. This map will generate up-to-date information that will allow the Mission to identify options for transferring specific activities to the government or other health sector partners.

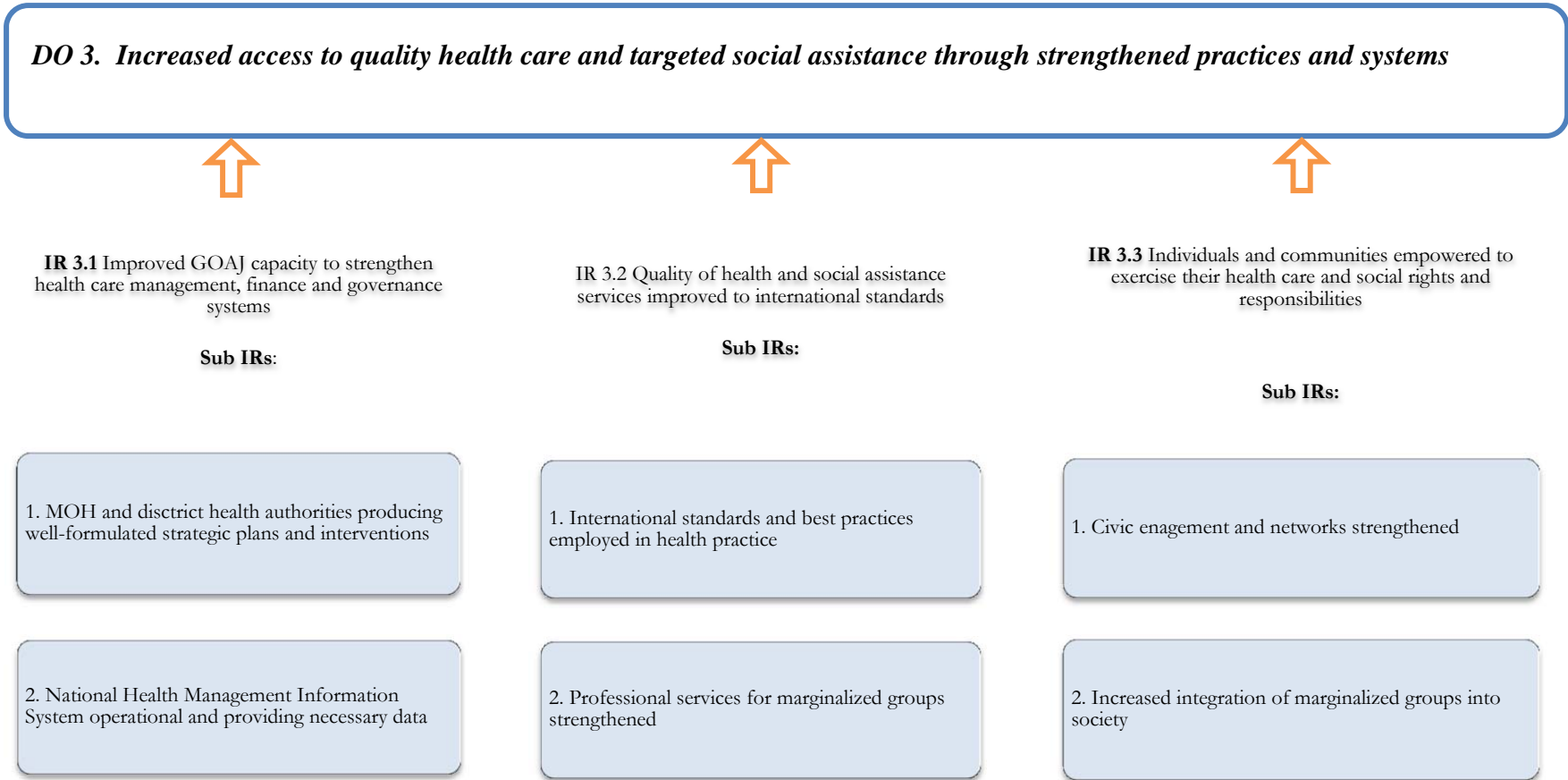


USAID has made important investments in developing clinical practice guidelines, instructional materials, monitoring and supervision, and professional certification to raise the technical quality of medical practitioners in Azerbaijan. As part of its detailed phase-out plan, the Mission will develop a roadmap with the government to ensure the continuation and sustainability of evidence-based medical training and quality improvement measures. These efforts will advance the institutionalization of USAID's health sector legacy in the country.

Since the MOH remains the most important actor in the health sector, USAID will actively involve the MOH in all stages of its phase-out planning. USAID plans to discuss ongoing activities with the implementing partner on their potential for sustainability under government support and then review recommended actions with the MOH. USAID will undertake a similar exercise with UNICEF, its other major implementing partner.

The Mission believes that the MOH has the capacity and means to assume direct responsibility for many of the activities now supported by USAID and can purchase technical assistance, for example from WHO or UNICEF, for other activities that require external expertise. Yet other activities might be financially supported by the World Bank.

Figure 4: RESULTS FRAMEWORK FOR DO 3



Details of the Intermediate Results

IR 3.1 Improved GOAJ capacity to strengthen health care finance, management, and governance systems

A strengthened health care system with good stewardship, enhanced transparency, and accountability, along with adherence to best international practices will lead to better managed health care systems, which should then lead to better health outcomes and impacts. USAID assistance will seek to improve the supply of health care and social assistance available to the public.

IR 3.1.1 MOH and district health authorities producing well-formulated strategic plans and interventions

During the past five years, USAID has assisted the MOH to prepare important strategies, including the National Tuberculosis Strategy, Strategy for Regionalization of Perinatal Care, and the Reproductive Health Strategy. To build upon those investments, USAID will assist and strengthen the MOH's ability to accurately forecast and plan for health care needs and improve information management to provide data for decision-making. USAID will build the capacity of MOH and district health authorities to produce and implement well-formulated strategic plans and interventions.

IR 3.1.2 National Health Management Information System operational and providing necessary data

USAID will assist the majority of the hospitals in Baku to improve electronic registration of the patients and ensure that all TB patients are registered using E-TB Manager. USAID will continue to collaborate with the Defense Threat Reduction Agency (DTRA) to develop a National Health Management Information system (HIS) under the Ministry of Health. Continued assistance is essential to establish a sound and self-sustaining HIS. USAID support will ensure the system incorporates electronic technologies and provides data critical for effective planning and decision-making.

IR 3.2 Quality of health and social assistance services improved to international standards

USAID will seek to improve the quality of health and social assistance services by working with the MOH and other government agencies to develop quality improvement approaches that meet international standards. USAID will also work with medical educational institutions and primary and secondary level health facilities to provide instruction on best practices and appropriate oversight and supervision. Women will be an important beneficiary of this support since they represent the majority of all health care users and make up 76 percent of all health and social sector employees¹⁶.

IR 3.2.1 International standards and best practices employed in health practice

Use of international standards and best practices facilitates quality improvement in health care. USAID will work with health professionals and facilities to standardize their operations in compliance with internationally-recognized guidelines, protocols, and

¹⁶ State Statistical Committee of Azerbaijan, <http://www.azstat.org>

training curricula. USAID will also encourage health practitioner use of updated Clinical Practice Guidelines.

IR 3.2.2 Professional services for marginalized groups strengthened

USAID will develop the professional status of social work by building the capacity of child protection and welfare institutions and by establishing an accreditation process. Activities in this Sub-IR will also develop the capacity of these institutions to carry out community-based models that help families keep their children with special needs at home rather than in institutions. Capacity development activities will seek to build the sustainability of these centers. USAID/Azerbaijan will seek to ensure that services delivered to marginalized groups are gender sensitive and gender balanced.

IR 3.3 Individuals and communities empowered to exercise their healthcare and social rights and responsibilities

Increased understanding of rights and responsibilities will affect public demand for health care. USAID will support strong public advocacy to move health care reform forward and increase public access to care.

IR 3.3.1 Civic engagement and networks strengthened

USAID will expand the number of community groups and support their increased involvement in health care and social assistance planning and decision-making. In Azerbaijan, few local organizations are strong enough to advocate for health and social assistance rights and actively engage in civil society. USAID will support organizations and networks that advocate for or offer services on behalf of people with special health needs and disabilities. Groups dealing with women's issues will be included in this activity. USAID will promote health-seeking behavior by encouraging individuals and communities to make healthy choices in their lifestyle behavior and their use of health care services.

IR 3.3.2 Increased integration of marginalized groups into society

Disabled people are isolated from the general public because of the challenges they face in assessing public buildings, navigating streets, and using public transportation. Most disabled people are unemployed, and employers are not aware of the benefits and opportunities of working with disabled people. USAID will support activities to increase the integration of marginalized groups into society, including increasing employment opportunities for youth with disabilities. Employment increases options for the disabled to live on their own or at home with their families, rather than in institutions. USAID/Azerbaijan will especially promote integration of disabled girls into society.

Illustrative activities

IR 3.1 Improved GOAJ capacity to manage health care finance and governance systems

Illustrative activities include:

- Develop the capacity of central and district health authorities to implement strategic plans and interventions in target areas.

- Improve the Health Management Information System

IR 3.2 Quality of health and social assistance services improved to international standards

Illustrative activities include:

- Increase practitioner adherence to evidence-based clinical practice guidelines.
- Upgrade medical education to update physician and nursing skills.
- Improve supportive supervision provided to health facility staff.

IR 3.3 Individuals and communities empowered to exercise their health care rights and responsibilities

Illustrative activities include:

- Building the capacity and increasing the number of local associations and patients' rights NGOs.
- Increased public knowledge of rights, available resources, and knowledge of healthy lifestyles.
- Supporting occupational skill development and employment advocacy for disabled youth and supporting central government efforts to implement community-based alternatives to institutionalization.

Geographic Focus and Target Beneficiaries

Assistance will mainly focus on work with health care and social service decision-making institutions in Baku. Selected activities will be implemented in a few, highly strategic geographic areas to build on past successes and maintain flexibility and capacity to respond to targets of opportunity in new geographic areas should important opportunities arise.

Cross-cutting issues for DO #3

Women will be an important beneficiary of assistance under this DO since they represent the majority of all health care users in Azerbaijan and make up 76 percent of all health and social sector employees¹⁷. Social assistance activities will work with disabled girls who have specific needs related to their disabilities. Social assistance activities will also target youth through efforts to increase employment opportunities for youth with disabilities. Health program initiatives will provide opportunities for public-private dialogue around issues of health reform, public priorities for health care, and the needs of the disabled.

Aid Effectiveness Principles

USAID actively collaborates with WHO, UNICEF, UNFPA, the World Bank, and the Global Fund in the health sector and the EU in the disability sector. We will explore opportunities to work more collaboratively or more multi-laterally with the private sector, including national foundations, oil companies, and mobile phone companies.

¹⁷ State Statistical Committee of Azerbaijan, <http://www.azstat.org>

III. Monitoring and Evaluation

USAID stewards public resources to provide sustainable development in Azerbaijan. To fulfill its responsibilities, USAID bases policies and investment decisions on the best available empirical evidence, and uses the opportunities afforded by project implementation to generate new knowledge for the wider community. This Monitoring and Evaluation (M&E) approach directly supports USAID's evaluation policy (2011), which emphasizes the importance of evaluation for "providing the information and analysis that prevents mistakes from being repeated, and increases the chance that future investments will yield even greater results than past investments." The M&E section is the starting point for organizing the indicator selection, baseline setting, and data collection that will be necessary to inform stakeholders and decision-makers on the Mission's progress towards achieving the DOs, and eventually, the overarching goal of the CDCS.

USAID will utilize managing-for-results concepts as the guiding principles during the project design, activity approval, competitive procurement, and implementation stages of the CDCS. USAID will plan an annual evaluation agenda that will identify specific program, sector, and crosscutting evaluations. The USAID team will use performance monitoring information, program evaluation findings, and analytical information to:

- improve performance and effectiveness;
- enhance joint collaboration with the Government, and other donor and private sector actors;
- guide management decision-making;
- revise the strategy, tactics and activities as needed;
- design and plan for new, responsive activities; and
- document findings regarding the impact of the strategy and share lessons learned.

Performance Indicators: To measure results for the CDCS, preliminary indicators have been selected based on the Performance Monitoring Plan (PMP), Results Framework (RF), MSRP discussions, the current USAID Strategy, Indicator Handbooks, GOAJ priorities, and complemented by information from prior USAID programs and ongoing activities. This set of indicators will be refined and augmented during the design and activity approval stage of the CDCS process.

Monitoring and Evaluation Process: USAID's M&E system will be developed from the Results Framework for each DO and will use indicators to track those results. The system is based on a Performance Management Plan (PMP), which will define indicators, data sources, method/approach of data collection and analysis, data quality assessments, and periodic evaluations. Baselines and targets will be identified as the strategy is approved. The PMP will also include the indicators to monitor regional and country context as well as critical assumptions. The targets will be completed within the first six months of approval of the CDCS as part of the project design and approval process utilizing the latest tools that emerge from the Agency's Project Design Advisory Group.

Depending upon the indicator, performance data will be mostly collected through the USAID partners who are implementing the activities. USAID will collect gender sensitive data and disaggregate all people-level indicators by sex, where possible. Direct observation through routine monitoring visits will complement performance monitoring information. Each DO team will validate, and aggregate all the information in time for the scheduled internal reviews. At least once a year, each DO team with its partners will analyze assessment results, performance information, regional political and development context and critical assumptions to make recommendations for adjustments, if needed, during the annual portfolio reviews.

Periodic evaluations of the implementation strategy, including lessons learned and best practices, will help program managers, decision-makers, and host country partners improve results and will also help USAID understand the context in which it is implementing its programs. The Mission will take advantage of partnerships with other donors and the Government to fund special studies. USAID/Azerbaijan also plans to undertake several cross-cutting assessments in FY 2013-2014.

High Priority Evaluation Questions: Relative to the identified DOs, there are basic questions that will always be kept foremost in the M&E process. For example: Has success at the DO level led directly to achieving the overarching goal? With regard to DO #1, has investor confidence significantly increased as a result of USAID interventions pursuing improvement in the areas of economic governance, finance, and competitiveness in target sectors? Regarding DO #2, have USAID interventions led to significant increase in effective participation of diverse actors and institutions in the democratic development of Azerbaijan? Regarding DO #3, has access to quality health care, and social assistance for targeted groups increased as a result of USAID interventions?

Impact Evaluations: USAID/Azerbaijan will continue undertaking a review of the activities and programs that would be most appropriate for evaluation during the strategy period. The Mission will undertake impact evaluations at each DO level during the strategy years as well as cross-cutting impact evaluations.

Engaging Local Counterparts, Stakeholders and Beneficiaries of the M&E: To the extent feasible, USAID will involve host country counterparts, stakeholders, and beneficiaries in planning and implementing performance monitoring, assessing data quality, collecting baseline data, and establishing targets. Joint collaboration may be established through agreements/MOUs with host government counterparts detailing mutually determined indicators, targets and procedures for joint monitoring, in addition to joint site visits or periodic review meetings. Performance information gathered will also be shared with beneficiaries as much as possible, which will enhance their capacities to use information for oversight and accountability.

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