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COUNTRY DEVELOPMENT COOPERATION STRATEGY (CDCS)

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USAID/Azerbaijan
Country Development Cooperation Strategy

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Executive Summary

CDCS Goal

The goal of this USAID strategy is an enhanced enduring partnership with Azerbaijan that advances the country's development progress. The partnership is adapted to the country's unique socio-economic situation, incorporating U.S. objectives for Azerbaijan's journey to self-reliance. Over the course of the strategy period, USAID will seek to support the Azerbaijani government's (GOAZ) engagement with citizens, particularly the most vulnerable; assist the government to create a more diverse and durable economy; and utilize a development dialogue approach to establish the basis for a long-term partnership that serves Azerbaijani and U.S. national interests. With respect to the four pillars in the National Security Strategy¹, the present document presents an approach designed to protect the homeland, the American people, and the American way of life, promote American prosperity, and advance American influence.

The 2018-22 Integrated Country Strategy (ICS) points out that Azerbaijan is surrounded by regional powers that have long sought to increase influence in the region. Keeping Azerbaijan leaning towards the West is important to U.S. national security interests. These interests are rooted in Azerbaijan's critical role in enhancing a strong, prosperous, and free Europe that is energy independent of Russia, and that Azerbaijan is politically independent from aggressive neighbors, and exhibiting a strong partner relationship between Azerbaijan and Israel. Azerbaijan's role as a major energy provider to Israel and to its immediate neighbors, in particular Georgia, is a key element of stability in the region and beyond. In addition, a stable, independent Azerbaijan on Iran's northern border also contributes to containment of Iran's destabilizing influence affecting the Middle East. As a secular, generally Western-oriented state with a Shi'a Muslim-majority population, Azerbaijan could serve as a model throughout Eurasia and the Middle East, provided there is consistent USG and European engagement and support to Azerbaijan's development trajectory.

The goal statement reflects the challenges inherent in this country context and the Mission's limited budget by focusing on partnership, achieved through a hybrid development and diplomatic approach and resource sharing, as the mechanism through which improved governance and economic growth can flow. USAID will work hand in hand with the host country government, the local private sector, and civil society actors who display a commitment to improving the lives of Azerbaijanis. The Mission will continue to grow its emerging body of data, obtained from our own data collection efforts, programming to date, the Journey to Self-Reliance (J2SR) Roadmap and Metrics, and other key sources to track and adapt interventions and messaging to ensure our targeted geographies and demographics are served. This partnership approach will also allow the Mission to address the government's relatively low commitment to inclusive democratic development in a manner more likely to be accepted by the host country than that employed during the previous Mission strategy. USAID will shift towards an incentives-based negotiation approach that begins with an initial focus on economic growth as the seed through which trust and partnership will grow and USAID can expand that trust and partnership to other sectors. USAID will continue to support democracy and good governance programs in the country. USAID will also work to support Azerbaijan's ability to chart its own independent development course. This measured, long-term approach comports with the longstanding bedrock of

¹ *A New National Security Strategy for a New Era*, the White House, December 18, 2017

our bilateral relationship -- U.S. support for Azerbaijan's sovereignty. This approach is a critical component of helping Azerbaijan balance its strong economic and other ties to its neighbors with improved ties to the West..

Commitment and Capacity

The analytical roadmap that USAID uses to identify and track development trends and needs in all of its partner countries identifies government economic and political commitment as lagging in Azerbaijan. Also, in spite of Azerbaijan's relatively high capacity scores on this roadmap, capacity gaps exist in government and civil society that limit Azerbaijan's development trajectory. USAID notes that the roadmap is just one element of comprehensive development policy formulation..

Azerbaijan's economy is insufficiently diversified and relies on oil and gas, while the government's and its peoples' democratic aspirations have yet to be realized. The country shares borders with Russia and Iran, controls energy pipelines that are key export routes to world markets and has the potential to be a key actor to reduce Europe's and Turkey's dependence on Russian energy sources. Much of its security policy focuses on a protracted conflict with its neighbor Armenia. In light of these complex factors, USAID's approach to development programming in Azerbaijan is framed by Azerbaijan's importance to US foreign policy and security goals. This, coupled with Azerbaijan's combination of commitment and capacity weaknesses as outlined in USAID's analytical roadmap, means that USAID must carefully match targeted investments in development with equally critical diplomatic engagements with a development focus. To accomplish this and accommodate an admittedly limited budget, USAID emphasizes partnerships focused on redefining the bilateral relationship with the government while also supporting the government to redefine its relationship with its own citizenry, where possible. This is feasible through a co-investment approach that engages the private sector and other stakeholders to commit to the reforms necessary to advance Azerbaijan on its path to self-reliance.

Another challenge is inefficient use of government resources. Inefficiency and corruption diverts resources from societal and broad-based economic needs, while deficient democratic processes hinder government accountability efforts. Over-reliance on oil revenues poses a risk to Azerbaijan's long term prosperity. The business climate should provide more incentives and safeguards to attract broader foreign investment. Policy and governance problems in the financial sector constrain access to capital. Though economic diversification has lagged, the government has taken practical measures to boost its investments through targeted policies to support lagging sectors of agriculture, tourism, internet and communications technology, renewable energy, and trade and logistics.

Countering Trafficking in Persons (C-TIP)

In 2019, just as the government embarked on a reorganization at its highest ranks to put forth a more youthful, Western educated cadre of leaders in key Ministries and the Presidential Administration, Azerbaijan was placed on the Tier II Trafficking in Persons Watchlist, taking the government by surprise and putting at risk future U.S. assistance. The US has responded energetically to this development and has encouraged the government to adopt measures aimed at improving its performance in the area of prosecution.

As discussed in further detail in the Strategic Approach section below, the government has amended legislation, developed a relevant National Action Plan, established an Anti-Trafficking Department within the Ministry of Interior, created a division for increasing awareness of human trafficking, established a

Victim's Assistance Center, trained relevant professionals, and revised the rules for the early identification of victims of trafficking. Despite these gains, much more needs to be done, particularly in implementing compliance standards in such areas as proactive identification of victims internally (including forced labor and child trafficking) and more vigorous prosecution of trafficking offenses.

Religious freedom

The 2019 annual USCIRF report places the Azerbaijani government on Tier 2. In 2018, although the Azerbaijani government made a number of positive overtures to engage in and discuss matters of freedom of religion or belief with the United States and the international community, religious freedom conditions did not measurably improve. The government continued to control religious activities through the 2009 Law on Freedom of Religion and related amendments of the administrative and criminal codes, which require religious communities to register with the government and criminalize all unregistered religious activity. In a positive development, four non-Muslim religious communities received registration from the government. However, throughout the year, local police forces continued to harass, raid, detain, and fine religious communities that did not comply with registration requirements and various restrictions on the production, possession, and dissemination of religious literature, although one community did report a lessening in police harassment.

Based on these conditions, in 2019 USCIRF again placed Azerbaijan on Tier 2 for engaging in or tolerating religious freedom violations that meet at least one of the elements of the “systematic, ongoing, egregious” standard for designation as a “country of particular concern,” or CPC, under the International Religious Freedom Act (IRFA)².

Strategic Choices

USAID's effectiveness in this dynamic context demands an integrated development and diplomacy approach to respond both to complex foreign policy priorities and the commitment weaknesses identified in the J2SR roadmap. Azerbaijan suffers from weaknesses in commitment to open and accountable governance combined with capacity gaps in civil society, media, and export sophistication. The government remains wary of U.S. efforts to strengthen civil society organizations or work with political parties, correlating assistance to civil society and political processes with ‘color revolutions’ in neighboring countries. USAID's suggested strategy for addressing these weaknesses is through careful, measured, and flexible programming, integrated across economic growth and democracy, rights and governance, combined with development dialogue with key interlocutors and influencers.

The Journey to Self-Reliance in the context of Azerbaijan expresses itself in terms of the achievement of economic independence, particularly from its neighbors seeking to exert malign influence. Azerbaijan is important for its geostrategic location and size, in its relations with Russia, Iran and Turkey. It is unique among USAID recipients in the region in its reliance on revenues from oil and gas exports and is the only USAID Mission that borders both Russian and Iran. Due to its lack of commitment to reinvest hydrocarbon revenues into sustainable long-term development solutions, rural Azerbaijan faces many of the same development challenges as those in other USAID Missions. Life for much of the population is

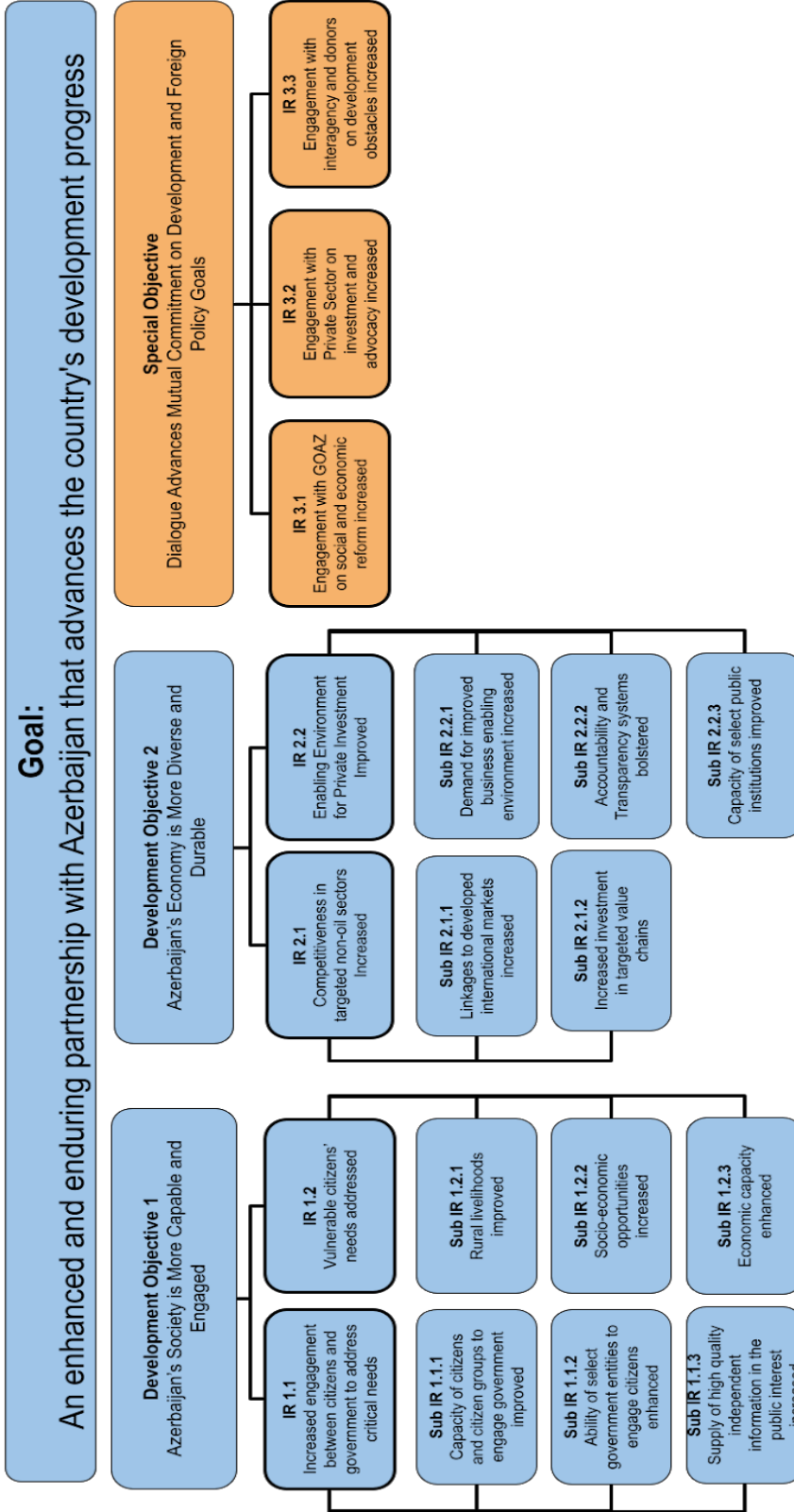
² United States Commission on International Religious Freedom, 2019 Report. USCIRF is an independent, bipartisan U.S. federal government commission. the first of its kind in the world, dedicated to defending the universal right to freedom of religion or belief abroad. USCIRF reviews the facts and circumstances of religious freedom violations and makes policy recommendations to the President, the Secretary of State, and Congress. USCIRF Commissioners are appointed by the President and the Congressional leadership of both political parties.

like that of low-income countries in Central Asia, and they experience the same rural exodus pressure with a growing youth population who lack employment opportunities. This failure to invest in rural populations creates opportunities for foreign malign influence, especially along the borders with Russia and Iran.

Recent improvements in bilateral relations offer an opportunity for USAID to work more closely with the Government to implement the self-reliance framework. During the strategy period, USAID/Azerbaijan aims to improve governance to protect vulnerable citizens and strengthen Azerbaijan's economy to protect against malign state influences. U.S. development assistance is welcomed by Azerbaijanis as an important tool to support democratic and economic reforms. Budget constraints dictate a non-project diplomatic engagement approach that intentionally leverages key stakeholder commitment and investment.

Azerbaijan, in the end, does not need financial assistance from the United States in the same way that other USAID partner countries do. At the same time, its geopolitical importance to U.S. national security cannot be overstated. The importance of Azerbaijan to U.S. national security interests is growing as Russia continues to exert power in the region and foments instability in Syria, Turkey, Venezuela, and elsewhere. By building trust, confidence, and focusing on partnership, USAID/Azerbaijan's reach and influence with the government can help to bolster the U.S.-Azerbaijan relationship and, step by step, open the space for democratic reforms and increased respect for fundamental freedoms. USAID/Azerbaijan's 2020-25 CDCS reflects the significant role that USAID plays in the interagency to contribute to foreign policy priorities and Azerbaijan's transition to becoming a stable, independent, democratic, and prosperous ally in the region.

Results Framework



Country Context

Azerbaijan seems reasonably well positioned to assure its own financial future, but the statistics mask some troubling structural difficulties. The country's continued under-investment in human capital impedes long-term development. The failure of Azerbaijan's education and health systems to deliver adequate services, and the pervasive corruption in these and other sectors, restrict opportunities for Azerbaijan to meet its potential, fueling public dissatisfaction. The country ranks below its neighbors, Armenia and Georgia, in the Human Development Index, even with its significantly higher per capita income. Meanwhile, even with some progress, the marginalization of women and girls squanders human potential and impedes economic and democratic progress. Despite stated government policies, early marriage and school drop-out rates for rural girls persist, along with high rates of gender-based violence, and a limited presence of women in leadership positions.

The oil price crash of 2014-2016 had a particularly dramatic effect on the Azerbaijani economy, eroding foreign exchange reserves, forcing a currency devaluation that continues to affect the economy, and leading to tightening of government expenditure and reduced willingness to invest. Some of the most forward-leaning initiatives, including a \$45 million co-investment program with USAID in which the government directly financed half the cost, were halted during the recession. That program, which was designed to lead to WTO accession and economic diversification, was abandoned because of the oil price crash and subsequent government actions directly undermining Azerbaijan's WTO accession path. Government enthusiasm for reform and liberalization dried up, as did the budget for our shared objectives. As a result of this, the Azerbaijani economy of today is significantly different from the one in which the previous strategy was written.

USAID believes a thriving, dynamic private sector is the engine of economic growth and a vital component of the journey to self-reliance. The Mission is advancing a new framework for deeper and more extensive engagement with the private sector, focused on increasing private investment and prudent lending in developing countries. The Clear Choice framework advocates free and open, enterprise-driven development to build resilient market economies, in contrast to autocratic, state-led development approaches. This approach helps foster an open, transparent business environment that levels the playing field for private firms to succeed. The result of these frameworks will be improved security and stability due to expanded economic opportunities and enabling environments for communities to thrive. Economic expansion such as this helps countries advance toward self-reliance.

Throughout the strategy period, we will seize openings, leveraging the government's capacity and willingness to engage with USAID on issues related to economic reform and diversification as an entry point to create jobs, improve livelihoods, increase Azerbaijan's economic independence from its neighbors, and improve export sophistication. This will be done through strengthening bilateral rapport and rebuilding trust with government counterparts. Economic growth activities will incorporate democratic and market-oriented practices and messaging and USAID will continue to create opportunities for government, civil society organizations, and citizens to engage and collaborate on mutual goals. We will simultaneously seek to empower citizens, citizen groups, and civil society including the media to engage with one another and the government--through uncontroversial subject matter--with the aim of building trust, confidence, skills, and abilities. When opportunities arise or the

context evolves presenting windows of opportunity to take on more difficult topics like fundamental freedoms, we will seize them. The private sector can also contribute to advocating for changes that lead to governance reforms. Expanded economic opportunities and incrementally liberalized enabling environments will improve communities' ability to progress along their hierarchy of needs. This economic expansion, coupled with an emphasis on improved governance, will help Azerbaijan advance toward self-reliance and become a better partner for the U.S. across all sectors.

Regional Actors

The value of bringing Azerbaijan into the ranks of prosperous, stable, and democratic states would be enormous. USAID programs, which share their goal with the larger U.S. mission, will continue to engage Azerbaijan in maintaining its chosen independent path by supporting the government in pursuit of actions leading to its removal from the Tier II Watchlist, as well as implementation of political and economic reforms important to ensuring long-term stability and a Westward facing posture.

Azerbaijan's foreign policy can best be described as "friends with most neighbors, but no single best friend". Azerbaijani leadership has been masterful at balancing the East and the West with a surfeit of hydrocarbons as their main draw. One of the former Soviet Union's most complex and interesting countries, Azerbaijan sits at the crossroads of one of the most geo-politically sensitive areas of the world, bordering Russia and Iran while lying close to Turkey. The Southern Caucasus is an example of what some scholars refer to as a "fractured region," in which external powers exercise influence by stoking border conflicts and separatist movements. In Azerbaijan's case, the chief example is the protracted Nagorno-Karabakh conflict, in which ethnic Armenian forces have occupied part of Azerbaijan's territory, leading to a protracted Internally Displaced Person (IDP) crisis and a festering sense of national grievance, propelled by Russian involvement.

Preparing Populations for Peace: Significant constraints to Azerbaijan's ability to achieve greater self-reliance include the protracted conflict with Armenia. On the ground, the Nagorno-Karabakh conflict has resulted in IDPs and refugees from Nagorno-Karabakh and the seven surrounding Azerbaijani territories. The economic cost of an active, low-level intensity conflict with Armenia is considerable, draining public resources away from economic and social development priorities. While peace-building will remain a longer-term effort beyond the timeframe of this strategy, its significance merits additional consideration and resources. Support for activities including Track II dialogue efforts can help to prepare affected populations for future peace and support the formal Track I diplomatic process. U.S. support for these activities across the whole of government is consistent with the United States' strong commitment as a Minsk Group co-chair country to helping the sides achieve a lasting peaceful settlement and broader U.S. efforts to advance peace and prosperity in the South Caucasus region. In Azerbaijan, the Department of State has taken the lead in this effort, engaging the country's leadership to advance dialogue and informal action on this profoundly important issue. USAID envisions, should the opportunity arise, continuing and potentially expanding these activities including with community, youth, civil society leaders, and academics to advance dialogue and informal action in support of a peaceful settlement, in close coordination with U.S. government stakeholders in Washington and in the region. Support for Track II dialogue efforts can help to prepare affected populations, such as IDPs from from Nagorno-Karabakh and the seven surrounding Azerbaijani territories, for future peace and support the formal Track I diplomatic process.

Of Azerbaijan's many foreign relationships, the United States has a particular interest in its ties with Israel. Israel's stability has long been key to the success of U.S. policy in the Middle East; Azerbaijan is a regular supplier of between a quarter and a third of Israel's oil. Azerbaijanis are also providing technical assistance for the development of new offshore Israeli oil and gas fields. The Leviathan Gas Field, one of the world's largest discoveries in the past decade, has the potential to strengthen Israel's foreign relations with key U.S. allies such as Turkey and Egypt as it comes online. Those assets are still years away from production; for now, Israel remains highly dependent on Azerbaijan's Caspian reserves.

Since the late 1800s, hydrocarbon extraction has played a pivotal role in Azerbaijan's political history and economy. Since its completion in 2006, the Baku-Tbilisi-Ceyhan (BTC) pipeline has provided a route for Caspian oil to reach Europe without relying on Russian pipelines. The BTC provides a strategic advantage to Azerbaijan with 3.2 billion barrels of Azerbaijani oil flowing to Europe from 2016 to 2019 according to a recent industry estimate. Throughout its post-Soviet history, Azerbaijan's oil reserves were developed primarily by Western companies, with the 1994 "Contract of the Century," entrusting much of Azerbaijan's offshore production to a consortium, including BP, Amoco, Pennzoil, and others. In 2017, this contract was extended until 2050, and in 2018, BP announced a new production sharing agreement with the Azerbaijani State Oil Company (SOCAR) for additional exploration.

Russia has long represented a key economic, political, and cultural partner for Azerbaijan. Many members of the political elite were educated in Russia and speak Russian at home. The Azerbaijani government has avoided military alliances and economic pacts with Russia and the West, apart from extensive energy cooperation with the West. In recent years, Azerbaijan has not been a top U.S. priority; this has led some in the Azerbaijan power elite to conclude that the West is not a reliable long-term partner. This has led to a re-emergence of Russian "soft power" and creeping re-alignment with Russian interests, including a rebound of Azerbaijani exports to Russia after a slump in 2015-16.

Even though profit from the Russian market is lower than in Europe, it remains the most convenient and easy to access. Knowledge of Russian language, historical economic and cultural ties, and geographic proximity contribute to the decision of local exporters to trade with Russia.

Local farmers emphasized the negative impacts of the Kremlin on ordinary farmers through intentional economic manipulation. This has primarily been manifested through border closures and diversion of irrigation water coming from the Samur River, which originates in the Greater Caucasus mountains and flows from Russia to Azerbaijan. Depending on the political tensions in the Russian-Azerbaijani relations, the border with the Russian Federation is occasionally closed to Azerbaijani fruit and vegetable exporters for an indefinite time which leads to the rotting of export goods and financial loss. Both the border closures and the diversion of irrigation water sources have an enormous negative impact on the livelihood of rural citizens and make people more susceptible to radicalization and/or migration. Over the last few years, a number of youth, including young women, have left the Khachmaz, Gakh, and Zaqatala regions to relocate to Syria.

Russia is one of the main destinations for economic migration of Azerbaijanis from the northern regions of Azerbaijan and that on average 25-30% of the population in those communities migrate seasonally to work in Russia. These rural households depend on remittances received from the migrant family members working in the Russian Federation, which can constitute up to 70% of income. This represents a leverage factor that Russia could use to harm rural livelihoods and sow further discontent.

Russian language and education in Russian remain popular in modern Azerbaijan and are supported both by the governments of Azerbaijan and Russia. Currently, there are about 350 schools where Russian language is taught as a second language, and 16 schools where Russian is a primary language, with approximately 4000 pupils. Sixteen thousand students studying at 18 universities in Azerbaijan receive education in Russian. Currently, about 15,000 Azerbaijanis receive education in the Russian Federation (both paid and unpaid), and the number of scholarships provided by the Russian government is increasing annually. For example, the number of scholarships in 2018 was 41% higher than the number of scholarships provided in 2015. These cultural ties ensure that continuing generations of Azerbaijanis will have some degree of Russian affinity.

Top-level Takeaways from the Country Roadmap

The J2SR analysis identifies host country commitment as the key development challenge. The Roadmap also places Azerbaijan in the upper right-hand quadrant of the low- and middle-income country snapshot, with a Social Group Equality score of 0.69 and an economic gender gap score of 0.72. At first glance, these might be interpreted positively. Unfortunately, reliable data on income distribution and sex-disaggregated wages are not available, and there is ample evidence that economic disparity is more uneven than these numbers indicate³. The government's own statistics illustrate that women earn about half as much as men, a finding that should markedly lower the gender gap score. As USAID's Bureau for Policy, Program and Learning has cautioned, relying on the roadmap scores alone could lead to a misinformed or distorted perception of the development situation.

Buoyed by oil and gas wealth, Azerbaijan has failed to diversify its economy, or develop as a liberal, multi-party democracy. Azerbaijan features shared borders with Russia and Iran, energy pipelines that are key to Azerbaijan's access to world markets, a protracted conflict with its neighbor Armenia, and a predominately secular, Shia Muslim majority population. Taking these complex factors into account, USAID's approach to development programming in Azerbaijan is framed by Azerbaijan's importance to U.S. foreign policy and security goals. USAID emphasizes partnerships focused on redefining the relationship with the government and pursuit of co-investment, while engaging the private sector and other stakeholders as both leverage and a catalyst for the commitment necessary to introduce and implement reforms that will more sustainably advance Azerbaijan's path to self-reliance.

Taking these complex factors into account, USAID's approach is framed by Azerbaijan's importance to U.S. foreign policy and security goals. This, coupled with Azerbaijan's combination of commitment and capacity weaknesses as outlined by the J2SR roadmap, necessitate a CDCS that carefully weds targeted investments in development with equally critical diplomatic engagements with a development focus. To accomplish this and account for an admittedly limited budget, USAID emphasizes partnerships focused on redefining the relationship with the government and pursuit of co-investment, while engaging the private sector and other stakeholders as both leverage and a catalyst for the commitment necessary to introduce and implement reforms that will more sustainably advance Azerbaijan's path to self-reliance.

³ The wealthy elite do not appear to have participated in the Household Income and Expenditure Survey: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=931563

The J2SR analysis of commitment and capacity⁴ of key actors (e.g., executive, legislature, judiciary, political parties, civil society, and media) shows that Azerbaijan scores poorly. The country roadmap does give high marks to the Azerbaijani government for capacity. And as noted above, relying on this roadmap alone is insufficient for comprehensive development policy formulation. Therefore, USAID's approach is framed by Azerbaijan's importance to U.S. foreign policy and security goals. This, coupled with Azerbaijan's combination of commitment and capacity weaknesses as outlined by the J2SR roadmap, necessitate a CDCS that carefully weds targeted investments in development with equally critical diplomatic engagements with a development focus. To accomplish this and account for an admittedly limited resource envelope, USAID emphasizes partnerships focused on redefining the relationship with the government and pursuit of co-investment, while engaging the private sector and other stakeholders as both leverage and a catalyst for the commitment necessary to introduce and implement reforms that will strengthen Azerbaijan's sovereignty and more sustainably advance the country's path to self-reliance.

Country transition planning

Azerbaijan does not seek a conventional donor-recipient relationship, nor does its economy warrant one. At the same time, its geopolitical importance to U.S. national security cannot be easily, or safely, dismissed. If anything, the importance of Azerbaijan to U.S. national security interests is growing as Russia continues to exert power in the region and take advantage of instability globally, such as in Syria and Venezuela. Despite Russia's influence, there are more and more signs of readiness to develop a strategic partnership and investment scheme with the U.S. and Europe. By building trust, USAID/Azerbaijan's reach and influence with the GOAZ can help to bolster the U.S.-Azerbaijan relationship and help to pry open the space for democratic reforms.

In speaking about the legacy of U.S. assistance to Azerbaijan, foreign policy considerations cannot be overlooked. For geopolitical reasons, transitioning Azerbaijan from a foreign assistance recipient to a robust and resilient security and economic partner of the United States is one of Embassy Baku's fundamental objectives. Throughout the current US Embassy in Azerbaijan Integrated Country Strategy (ICS) period and beyond, foreign assistance will continue to support Azerbaijan's ability to counter transnational threats, including Russian influence and aggression, and prevent violent extremism. U.S. diplomatic and assistance efforts will continue to advance long-term regional security and stimulate inclusive and diversified economic growth, while seeking to strengthen democratic institutions and processes. In the meantime, USAID is helping to leave a legacy of community resilience and increased export diversification, which are contributing to improved livelihoods and higher rural incomes.

Embassy Baku will ensure that all foreign assistance approaches are consistent with USAID's journey to self-reliance roadmaps aimed at leading recipient countries to finance and implement solutions to their own development challenges. Throughout the lifetime of the ICS, there will be opportunities to conduct status checks of our assistance activities to ensure that we are meeting transition objectives. The planned mid-point review of the ICS will enable us to re-evaluate our initial assumptions, assess the progress of Azerbaijan's development efforts, and explore areas where the U.S. can enhance aid

⁴ Country commitment relates to the extent to which a country's legal framework, policies, and norms enable the country to solve its own development challenges, while country capacity relates to how far a country has come in its journey to work across these sectors.

effectiveness and impact to ensure that one day assistance is no longer needed. More importantly, Embassy Baku will increase its targeted engagement with the Azerbaijani government to capitalize on opportunities to mobilize more of Azerbaijan's own resources to address its social, economic, and political challenges leading to self-reliance as well as increase opportunities for U.S. private sector investment in Azerbaijan.

Strategic Approach

The current USAID approach is to support selected reforms with activities that have implicit governance elements. For example, USAID support to private-sector opportunities like export diversification, agriculture enhancements, and tourism will benefit from support to improving the business enabling environment through good governance-oriented reforms. Supporting the government's interest in boosting small and medium enterprises through more capable business associations has the added benefit of increasing citizen and private sector engagement with the government, while also building citizens' advocacy skills. Activities like these will have the effect of establishing trust that USAID is not subversively working to undermine Azerbaijan's government or challenge its legitimacy. It is expected that this process of building trust will produce discrete democratic gains in the short term, while laying the foundation for more significant change in the long term.

The U.S. Government's relationship with the host country government

While there are many places in which U.S. and Azerbaijani objectives differ and friction still arises, the two countries do share important goals. Both seek an economically and politically independent Azerbaijan, with secure borders, a stable government, and a population with the potential for prosperity and peace. Key to U.S. engagement is a robust development dialogue that currently focuses on a better environment for private sector investment, with the emphasis on the agriculture and tourism sectors, combined with constructive discussion around addressing community vulnerabilities including combating trafficking in persons, unemployment, water scarcity in rural areas, gender equality, and citizen participation in public life, including governance. USAID is advocating for and supporting reforms that help the private sector grow and improve the business environment, conditions crucial to attracting investment and diversifying the economy. We also advocate for and offer to support reforms to the legislation governing NGO registration and its implementation.

The reform process in Azerbaijan is incremental and is likely to continue to be so, but bright spots exist and represent opportunities to be seized. Recent structural reforms that created the Small and Medium Business Development Agency, Food Safety Agency, and Agrarian Services Agency, represent a positive step towards a more modernized, market-oriented government. These institutions have the potential to provide much-needed, specialized support to the non-oil sector, especially the agricultural sector, and each articulates its mandate with a focus on citizens when USAID interacts with them. USAID has already begun partnering with the Small and Medium Business Development Agency, Agrarian Services Agency, and the Food Safety Agency. Furthermore, reorganization of the government at the highest levels in 2019, across Ministries and the Presidential Apparatus, is a potentially positive development, boding well for our ongoing bilateral relationship. Newly appointed officials are almost exclusively younger generation English speakers with degrees from American and other Western universities, while those who were replaced could be referred to as the old guard—predominantly Russian-only speakers, educated in the Soviet Union. USAID is also increasingly aware of reorganization at lower levels of

government which does not get press or attention and will seek to work and support government efforts at all levels to support the government's reform efforts.

Use of Host Country Resources

Financing self-reliance is an opportunity within this strategy. Azerbaijan obtains enormous wealth from the export of petroleum products and will continue to do so throughout the strategy period. USAID seeks to employ its modest budgetary resources to influence the government's investment toward the diversification of the sources of GDP and to help to ensure that a larger proportion of the population, namely women and rural Azerbaijanis, are engaged in the national economy.

Prior to the 2014 oil price crash and crackdown on civil society organizations (CSOs), USAID was implementing activities that were co-funded by the Government of Azerbaijan. USAID was instrumental in the creation of the State Oil Fund of Azerbaijan (SOFAZ), the national sovereign wealth fund, which invests not only in Azerbaijani projects, but in opportunities around the world, including in the U.S. As a result of the oil price decline and rising suspicion over the U.S.'s role in Azerbaijan, the practice of cost-sharing with USAID was abandoned (with the exception of the government's current support for SEDA). USAID has shown that cost-sharing is a realistic and proven approach to leveraging host country resources. For example, USAID provides human resources in the form of expert trainers, while the government provides training space, translation services, and all other costs associated with the transfer of knowledge. USAID intends to re-examine a variety of types of cooperation and technical exchange with the government over the coming years.

Engaging the private sector

USAID/Azerbaijan has eagerly embraced the principles of Private Sector Engagement (PSE) and has targeted selected value chain interventions that leverage corporate capabilities and that can bring benefits to small and medium enterprises. All sectors in Azerbaijan have a vital role to play, and we can also engage the private sector to address humanitarian and development issues in our work together. We seek to diversify the partner base to include more private enterprises like U.S. vendors, providers of technical assistance, financial investors, and businesses of all sizes from across many industries. Increased U.S. involvement can help to influence the private sector to make responsible, inclusive business investments and seek to make a positive social and environmental impact on communities in which they operate.

USAID believes that Azerbaijan can attract greater domestic and foreign investment by making improvements in legislative and regulatory areas that will improve private sector competitiveness. A strong regulatory environment, including competition law and anti-monopoly regulation, will increase employment and development outside of the oil sector, providing greater economic resilience during oil price fluctuations. USAID seeks to support the diversification of the economy through micro, small and medium enterprises (MSMEs), with a focus on youth, women, farmers and small and medium-sized agribusinesses, and to improve the business enabling environment. The Mission has identified access to finance, business skills, and the trade regulatory environment as significant barriers to Azerbaijan's economic growth.

Agriculture, the sector employing the largest percentage of the population in Azerbaijan, has the greatest potential for diversification away from oil, and is increasingly a target for public and private

investment. It is also one of the sectors most strongly affected by challenges facing MSMEs. Lending and investment have traditionally targeted commerce, construction, and the oil sector, leaving financial institutions with limited agribusiness expertise. Additionally, there currently are limited government extension services to provide micro, small and medium-sized agribusinesses with agricultural information and inputs. Investment in extension and financial services can boost enterprise growth, productivity, and agricultural sector competitiveness while growing rural incomes. Continued development of the sector also presents a strong opportunity to advance gender equality in rural areas. While agriculture employs a large proportion of women in seasonal picking and sorting jobs, most agribusiness owners and managers are still men, and men still own most of the land. Recent efforts by the government to focus on women in agriculture, women's entrepreneurship, and develop agritourism and food processing can be expanded to provide greater opportunities for women and youth.

USAID has tremendous technical experience in agricultural sector development that can provide a model to increase the competitiveness of MSMEs. USAID's activities have proven results in increasing product quality, quantity, and export sales. These activities enable more farmers and agribusinesses to compete in local, regional, and world markets and contribute to the diversification of the economy.

The new Private Sector Activity (PSA), awarded in 2019 and which will extend through this CDCS period, aims to increase the quantity and quality of agricultural goods, improve education and knowledge-sharing on agricultural production for agribusinesses and farmers, increase agricultural exports to developed markets, and develop new areas of agribusiness including agritourism. The Private Sector Activity will introduce American technology, showcase U.S. technologies and services, engage American experts, and facilitate exchange trips to the U.S. While U.S. agribusiness manufacturers and suppliers gain new markets, Azerbaijani agribusinesses gain access to innovative new technologies that are unavailable or unknown to local producers and processors. USAID/Azerbaijan will continue to facilitate both academic and commercial linkages between Azerbaijan and the United States, which will further increase the partnership between the two countries.

Finally, USAID will continue to engage the private sector as a partner in Azerbaijan's development. To date, we have successfully leveraged private sector finance for ongoing activities, including private sector sponsorships for USAID-supported events. The Mission has secured private sector partnerships to introduce innovative international practices and new technology to Azerbaijani counterparts in every sector and collaborated with private sector partners on subjects of mutual interest leveraging their human, financial, and in-kind resources. We have developed draft memoranda of understanding with a number of private sector entities including Coca-Cola, Hilton Hotels, and British Petroleum, each crafted around unique engagement opportunities in Azerbaijan. It is anticipated that many more such relationships will arise over the course of this strategy period.

The role of civil society, media, and citizens

The evolving political landscape has opened windows of opportunity to address good governance and accountability, economic governance, public participation, and improved service delivery by supporting the President of Azerbaijan's reform agenda and appealing to the government's own incentives. USAID's window for investing in civil society, media, and human rights remains open, though the Mission must proceed carefully in order to build trust and open the space for increased partnership, with special consideration for context and security concerns. USAID is focused on expanding the base of support for democratic norms and fundamental freedoms with all its stakeholders, those in government and

non-government organizations alike. USAID will seek to provide safe spaces for civic engagement and the acquisition or honing of skills related to civic engagement for citizens, media, and activists whenever possible. USAID will recruit the private sector as partners in this endeavor, strengthening the demand for better governance and more accountability in addition to continued market-oriented reforms alongside civil society.

The media in Azerbaijan is almost entirely state-controlled and pro-government. The government's crackdown on independent media has resulted in the detention of bloggers and independent journalists, the blocking of online opposition media sites, and the flight of dozens of journalists from the country to escape persecution. Azerbaijan's consistent designation as a consolidated authoritarian regime reflects the government's continued aggressive efforts to constrain fundamental freedoms and civil society with the apparent goal of solidifying the ruling family's grip on power. This process has accelerated since 2014 with authorities meting out widespread and harsh punishment against those exercising their human rights, further closing the country's already small civic space. Parliamentary elections in February 2020 further reiterated the lack of free, fair and transparent elections and reinforced President Aliyev's political support in Parliament.

Severely weakened civil society organizations and independent journalists, because of a sustained period of highly restrictive policies, punctuated by the 2014 crackdown, need support more than ever. Five years of foreign financial "drought" has resulted in significant compartmentalization and the weakening of the entire sector. Many of the most developed and experienced CSOs saw their capacity severely damaged due to the lack of funding – they lost many experienced staff, many closed offices, and most could not continue to provide services and support. USAID still views CSOs as an essential component for Azerbaijan's self-reliance, and has seen some governmental willingness to re-engage with CSOs on specific key issues. We will aim to expand those issues and to continue supporting the opening of space for citizens and activists. Access to information will be another critical component of USAID's strategy and work in the media sector will be essential.

Possibility for reforms

The Mission has received official requests for technical assistance both from the Central Bank of Azerbaijan, which sets and manages the country's monetary policy; and from the Financial Monitoring Service, which fights against money laundering and terrorism financing. The Mission likewise has requests from the Ministry of Economy to support their efforts to monitor and evaluate government programs, particularly those implementing reform agendas, and recently the Ministry of Justice to support its efforts to improve the NGO registration process.

USAID has also received requests from a range of other Azerbaijani Agencies, including the Small and Medium Enterprise Agency, the Ministry for Labor and Social Protection, and the Food Safety Agency. The energy sector represents an area where the Azerbaijani government has requested support in line with U.S. foreign policy goals in Europe. Responding to some of these requests for technical assistance would enable USAID to partner with Azerbaijan to improve its governance across the board, making Azerbaijan a better and safer place for business and investment, for citizens and reform minded leaders, for American companies, and for the region's stability. Furthermore, supporting requests from reformers and change agents within the government sends the message that USAID does, in fact, recognize when positive changes are made and expands our base of support for further democratic, market-oriented reforms. Creating a stronger, wider base of support within the government contributes

to USAID's building relationships on a foundation of shared goals upon which we may lean in order to have thornier conversations about rights, voice, association, and fundamental freedoms in a democracy.

Gender

Gender equality and the rights of women are protected in the Azerbaijani Constitution and by numerous laws and policies. Azerbaijan is a signatory to CEDAW and has ratified key OSCE documents related to human rights and gender equality. However, there are significant discrepancies between *de jure* and *de facto* equality in the country because these laws and policies exist alongside pervasive gender stereotypes and unaddressed barriers to achieving equal economic, social and political participation between men and women. The World Economic Forum's Global Gender Gap Report 2020 ranks Azerbaijan 94 out of 149 countries, with a gender parity score of 0.687.

The Council on Foreign Relations ranks Azerbaijan 114 out of 189 countries globally and 23 out of 25 countries in Europe and Central Asia in its Women's Workplace Equality Index. It cites challenges in building and accessing credit, getting a job, going to court, protecting women from violence and providing incentives to work. Women have similar educational attainment as men and high workforce participation, but face lower wages, mainly due to horizontal and vertical segregation of the labor market, where women predominantly work in lower level, part-time, or informal jobs, or in sectors of the labor market traditionally viewed as being "appropriate for women" which are lower paid (e.g., education, agriculture, healthcare, social work). Women face a high burden of unpaid domestic labor, even when they do work outside of the home. Access to childcare and support with domestic work can limit women's ability to work outside of the home or make the same career advancements as men. USAID plans to address these issues through an integrated diplomatic and activity-based approach.

Countering Trafficking in Persons

The Azerbaijani Government's ranking in the Trafficking in Persons (TIP) Report was downgraded to the Tier 2 Watchlist in 2019. According to the 2018 Trafficking in Persons Report, "Prosecution efforts decreased, with courts issuing suspended sentences for nearly all convicted traffickers. The credibility of the Anti-Trafficking Department (ATD) was diminished by credible reports of its arbitrary detention and physical coercion of a confession from a minor; and the government did not regularly screen vulnerable populations and lacked proactive identification efforts, particularly for Azerbaijani victims of internal trafficking. As a result, the government disincentivized cooperation with law enforcement and may have penalized victims due to inadequate identification. Some local officials mobilized and forced some public-sector employees to participate in the autumn cotton harvest."

The government has amended legislation, developed a relevant National Action Plan, established an Anti-Trafficking Department within the Ministry of Interior, created a division for increasing awareness of human trafficking, established a Victim's Assistance Center, trained relevant professionals and revised the rules for the early identification of victims of trafficking. Nevertheless, implementation of compliance standards in such areas as proactive identification of victims internally (including forced labor and child trafficking), prosecution of trafficking offenses, and a lack of victim-centered approaches within law enforcement bodies show regress.

Over the strategy period, the Mission will pursue a diplomatic and activity-based approach to advocate for the following policies to improve Azerbaijan's effectiveness in addressing TIP and forced labor issues:

- Collaborate with the Council of Europe, which has a mandate to work with law enforcement agencies, to implement more tangible larger scale activities focused on forced labor.
- Do not commute additional sentences for convicted traffickers, even if they are women with small children.
- Increase victim-centered approaches to TIP investigations and prioritize protection of victims.
- Expand training and familiarization with standard operating procedures (SOPs) for victim identification to include first responders, including law enforcement, immigration, and social services personnel.
- Provide C-TIP grants to local CSOs that would increase media engagement and support additional awareness campaigns on the issue.
- Provide financial support to shelters that support TIP survivors and their families.

The Mission's existing C-TIP activity will seek to establish strengthened networks between management of supported-shelters for victims of trafficking and domestic abuse as well as networks of beneficiaries of USAID or other donor funded activities, to increase service provision, skills building, and share successful self-sustainability models.

However, there is little funding available for C-TIP at present. With additional funding, USAID would be able to work to boost prevention activities around gender-based violence and domestic violence serving as drivers of vulnerability for individuals to trafficking schemes. USAID could also work with partners to improve survivor identification efforts and gather data related to domestic or internal trafficking around which the Azerbaijani government has exhibited a blind spot. There are many other activities in which the Mission could engage to address the Tier 2 Watchlist status were additional funds available. C-TIP programming is still needed and should be focused on victim identification training, prosecutor and judge training for specialized judges to deal with TIP cases and to ensure proper sentencing guidelines are followed. Further efforts at raising public awareness are also needed and can be combined with efforts to raise awareness about violence against women.

Efforts of Other U.S. Partners

USAID has a close working relationship with all sections of the USG country team, and the ICS serves to bring strategic coherence to the interagency process. USAID's program contributes to three key objectives of the ICS and is primarily responsible for carrying out Goal No. 2, *U.S. assistance supports Azerbaijan's democratic and economic reform process, promoting competition and pluralism in society to lay the foundations for a sustainable market-based democracy*. USAID co-chairs two of the three ICS working groups at Post, the Economic Growth Group and the Democracy, Rights and Governance Group. USAID also serves as the co-Assistance Coordinator at Post. These other elements of the country team support the foreign assistance effort:

- The Department of Commerce implements the Commercial Law Development Program to help bolster the legal environment and attract foreign direct investment. The insecure legal framework is one of the strongest deterrents to attracting private investment. The Commerce Department was also a major player in the Chicago and Oklahoma Agricultural Forums in 2019. The Mission plans to continue this cooperation with DOC and to carry out many more such forums in the future.

- The Public Affairs Section (PAS) is an active partner with USAID, particularly in its contributions to English language education, an area of importance to countering Russian cultural influence, for which USAID has no funding. It also makes strategic use of the International Visitors Leadership Program (IVLP) for USAID partners. PAS has supported a variety of programs focused on women's entrepreneurship and youth leadership through its Democracy Commission and other exchange programs.
- In addition to its programs of military assistance, the Department of Defense (DoD) carries out the Overseas Humanitarian Disaster Assistance and Civic Action (OHDACA) program, with several activities implemented throughout the country over the course of each year. These are typically coordinated by the National Guard's State Partnership Program and coordinated by the Bilateral Affairs Officer (BAO) at post. Azerbaijan's state partner is Oklahoma, which also hosted the Oklahoma Agricultural Forum in 2019. Over the coming strategy period, USAID hopes to ensure that these activities more directly support the larger U.S. development goals in the country and that the coordination between USAID and the DoD grows stronger.
- In 2019 the Senate passed the BUILD Act, creating the U.S. International Development Finance Corporation. The IDFC will combine the Overseas Private Investment Corporation and the Development Credit Authority, adding new development finance capabilities, including equity authority, and have a higher lending limit than its predecessor. USAID/Azerbaijan is following the progress of this new agency closely and exploring opportunities to leverage IDFC funding as appropriate.

Results Framework Goal Statement and Narrative

The USAID goal of an enhanced enduring partnership with Azerbaijan echoes the primary goal of the 2018-2022 ICS, which is "an independent and stable Azerbaijan capable of addressing security threats and contributing to international security." The ICS aims to address these challenges by advancing U.S. interests in the areas of security, democracy, and economics. Mission Goals and Objectives recognize that these areas are interdependent and mutually reinforcing in the effort to create a stronger foundation for Azerbaijan's long-term stability.

The same dynamic applies to the CDCS Development Objectives. The strategy will seek to address the complementary issues through two development objectives: *Azerbaijan's Society is More Capable and Engaged*, which focuses on prosperity and stability, and *Azerbaijan's Economy is more Diverse and Durable*, which aims to address issues of prosperity and economic linkages with Western economies.

Development Objectives 1 and 2 work together to ensure that the benefits of economic diversification are shared, so that the more vulnerable members of society have the right skills to participate in the increased prosperity. Value chain and tourism work will particularly focus on engaging women and youth. We also posit that economic diversification and increased export sophistication and markets will create more opportunities for Azerbaijanis to participate in the economy.

The two development objectives also work together to bolster the capacity of CSOs and private sector entities to engage the government on a variety of issues important to citizens. The two DOs were conceptualized and designed simultaneously, in the belief that Private Sector Engagement represents a promising avenue to bring about beneficial socio-economic reform. Both DOs are implemented through

the same project structure and share many of the same implementing mechanisms, working with both non-governmental and for-profit entities.

However, the above development objectives on their own are insufficient to make a measurable change in the country’s economic and political environment. Given Azerbaijan’s billions of dollars in annual oil and gas revenues, the government of Azerbaijan is unlikely to be incentivized to commit to significant reforms by USAID’s modest \$7 million funding envelope alone. Azerbaijan constantly balances regional powers’ threats and demands with the expectations of the West. Decisions about domestic policy include factors far outside of USAID’s narrow programming reach.

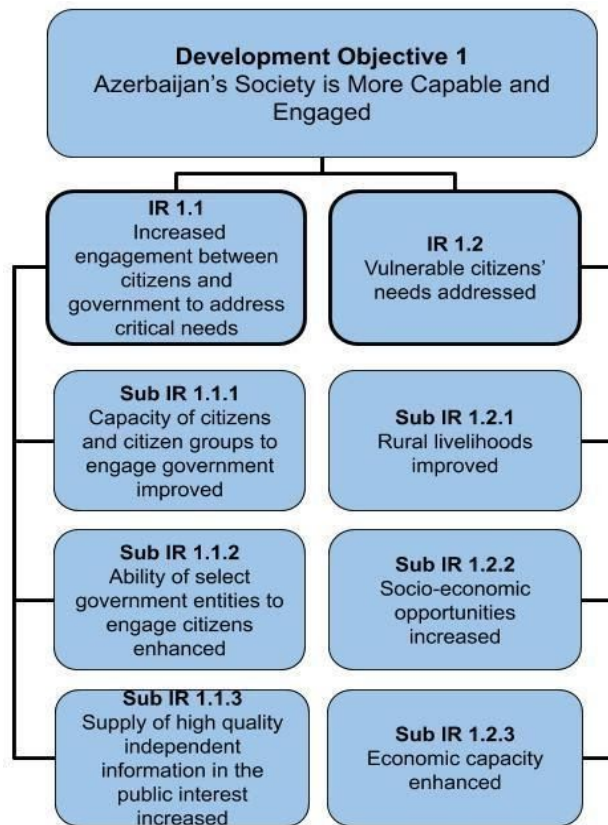
Making a difference in the country’s commitment to J2SR principles will require a focused and robust diplomacy-development dialogue, leveraging USAID’s convening power, redefining the bilateral relationship into a partnership, pursuing reform efforts, and leveraging additional resources for development. To do this, USAID will concentrate on three main audiences - the Azerbaijani government, private sector, and U.S. interagency stakeholders and donors. By intentional programming with donors, leveraging private sector resources and voices, and bringing in the government of Azerbaijan along as a strategic partner, USAID can expect to leverage two to three times its own resource levels over the course of the strategy while using its convening power and clout to target messaging for more modern and liberal governance to Azerbaijan’s influencers and decision-makers.

DO 1: Azerbaijan’s Society is More Capable and Engaged

Development Hypothesis

If socio-economic engagement with citizens is expanded, and the needs of vulnerable citizens are addressed, Azerbaijan’s society will become more capable and engaged. Socio-economic engagement will be increased through a series of interventions targeted at government reform champions, and the creation of opportunities to work with civil society on issues of mutual interest. On the other side of the equation, vulnerable citizens’ needs will be addressed through a community resilience-based approach.

Resilience in this context refers to society’s capacity to weather economic and political shocks, organize into groups to advocate for needed changes, obtain reliable information from unbiased sources, and provide effective feedback to a more responsive government—in short, to become more self-reliant.



How the DO contributes to the Journey to Self-Reliance

On the J2SR Roadmap, USAID/Azerbaijan's work under this DO will contribute to shoring up the following metrics: Civil Society Capacity and Open and Accountable Government. This DO aims to leverage Azerbaijan's current strength on the commitment side of the J2SR roadmap with respect to inclusive development. Per the J2SR Roadmap, Azerbaijan exhibits low commitment to self-reliance, particularly with its very low scores around Open and Accountable Governance (.06 on Liberal Democracy). Accordingly, USAID has identified a window of opportunity to increase engagement between citizens and receptive counterpart institutions, to address critical development challenges and ultimately advocate for much needed governance reforms. USAID will selectively work with entities considered agents for reform. Opportunities to work with the government will increase as the appetite for reforms grows. The hypothesis is that CSOs will increasingly be viewed as alternative service providers, interlocutors, resources, and counterparts.

This approach acknowledges that systemic change is not easy and is often hard to measure. The Mission works at multiple levels across Azerbaijani society to maximize short and long-term impact. The program will invest in supporting change, accountability, and resilience in the economic, social, and political systems. Within each of these systems there is a range of components, or subsystems, which project interventions will seek to target through activities and development-diplomacy dialogue.

How the IRs contribute to the DO

DO I has two intermediate results:

- IR 1.1: Increased engagement between citizens and government to address critical needs
- IR 1.2: Vulnerable citizens' needs addressed

According to data collected by the Mission, most Azerbaijanis identify the lack of livelihoods as the largest problem facing their communities. With a dearth of skills and channels to communicate their needs, combined with limited outlets to access information, Azerbaijani citizens and citizen groups are increasingly frustrated with the status quo. This combination of factors creates fragility within the society. These two IR's will address that fragility.

- **IR 1.1: Increased engagement between citizens and government to address critical needs.** USAID will focus on expanding the base of support for democratic norms, increased transparency and accountability, and more equitable, inclusive development with all its stakeholders, in governmental and non-governmental organizations. The Mission will seek to provide or expand upon existing safe spaces for civic engagement and the acquisition or honing of skills related to civic engagement and advocacy for citizens, citizen groups, media, and activists, while simultaneously supporting select government entities to receive the resulting citizen engagement. Particular attention will be paid to promoting gender equality and promoting increasing women and youth empowerment under this IR since women lack authoritative voices in government while suffering disproportionately from gaps in critical needs as well as intersecting forms of discrimination. Under IR 1.1, if the conditions and funding permit, the Mission will also explore opportunities to work in the justice reform sphere, potentially supporting dispute resolution, intellectual property rights, and other justice sector subjects. Human rights activism is an area of contention within the current government in

Azerbaijan but remains a serious area of need for support. USAID has a history of supporting human rights activists and defenders in Azerbaijan, many of whom need USAID and America's backing now more than ever. USAID is exploring various forms of support to this subsector, and activity designs that bear risks and risk mitigation in mind but do not abandon human rights defenders who uphold values that are also core to USAID and America's foundations. Activities in this area can address the issue of self-reliance, help diagnose the drivers of this backsliding, and work to mitigate it.

The capacity of citizens to organize CSOs or other citizen-led organizations as platforms for advocacy, or even engage the government as individuals, as well as the ability of willing government entities to respond to citizens' needs, requires enhancement to allow for fruitful engagement and mutual progress. These engagements need to be catalyzed by improving access to quality information so that citizens and the government can make informed decisions as well as share information more freely. Improving access to information will be achieved by working with journalists and CSOs to ensure a supply-and-demand approach. This IR will further break Russia's monopoly on international news and provide for quality locally derived content. Access to information is a key component in the Mission's emphasis on countering malign Kremlin Influence. The Mission plans to maintain operational flexibility in activities contributing to IR 1.1 so that it can scale assistance as opportunities are created. This is how IR 1.1 contributes to DO 1.

- **IR 1.2: Vulnerable citizens' needs addressed.** This IR will focus on select geographic areas vulnerable to malign influences and outmigration, by enhancing the provision of and access to services that support the development and strengthening of livelihoods (e.g., agriculture, small business development), particularly in rural areas along Azerbaijan's northern and southern borders. Rural women will be a specific target community as they suffer disproportionately from poverty, and face multiple forms of discrimination, violence, and insecurity as compared to rural men and urban men and women. This IR will include dedicated assistance to countering trafficking in persons (C-TIP), with survivors and potential victims of trafficking featuring as one subset of vulnerable citizens. USAID will pursue these activities in concert with the Azerbaijani government, private sector, and civil society resources. This IR is a natural intersection with DO 2 and presents great opportunities for integrated, non-siloed activities and technical approaches.

Although USAID has invested in rural Azerbaijan, specific areas of the country remain highly vulnerable to economic and social shocks, malign state influences, human trafficking, migration, and extremist ideologies. Over the last two years the Mission has begun consolidating its resources into three geographic areas—north, northwest, and south—that were identified through USAID/Azerbaijan's cutting-edge monitoring of its activities, we have identified these areas as the most vulnerable regions in the country. For Azerbaijan's society to be resilient against existing and future shocks, the most acute needs of highly vulnerable citizens need to be addressed, with a special emphasis on women. USAID is currently the only donor with a comprehensive, geographically focused approach to improve the lives of Azerbaijan's most vulnerable people. Rural livelihoods specifically require improvement via growth in the agriculture sector to stem rural-urban migration and out-migration to surrounding countries. Agriculture is also the sector that employs the most rural women and has the greatest potential to alleviate their most significant vulnerabilities and reduce sector-specific barriers. Under this IR 1.2, DO, preparation for job opportunities, supporting entrepreneurship, and addressing gaps in services that limit

rural livelihoods are all areas that will be included. IR 1.2 will also provide targeted assistance to women and youth who are most at risk for trafficking, violent extremist recruitment, malign influences, and have limited opportunities to enter the economy. This is how IR 1.2 contributes to DO 1.

How Government of Azerbaijan Priorities Align

Currently, USAID has reliable partners in the Ministry of Economy, Ministry of Agriculture, Azerbaijani Service and Assessment Network (ASAN), State Committee for Women, Children and Family Issues, the Presidential Administration, local Executive Committees, and even the Ministries of Health and Education. USAID will seek to hone its resilience-building approach, continue and expand upon partnerships, and scale up this partnership approach throughout the country. The J2SR scores illustrate that the government of Azerbaijan can be effective when it chooses to do so. Therefore, the Mission does not intend to provide support indefinitely and views the Azerbaijani government as a willing and able partner to take over and scale up USAID's sustainable approach as a model of self-reliance for rural Azerbaijani communities.

While U.S. and host country government priorities often do not align in IR 1.2, there are areas of complementarity. For example, the President issued a decree focused on increasing public participation in governance. He has also issued a decree declaring 2020 to be the year of Volunteers and is expected to issue instructions to all ministries on how to implement this initiative.

Other development actors

USAID currently supports CSOs working on issues of common interest to the government and has paired these CSOs with self-selected governmental entities to increase transparency and practice accountability. Current programming empowers individual citizens to articulate their needs through community groups and carries out community-led surveys to identify priority needs. The Mission's current private-sector partnerships with Coca-Cola and Hilton Hotels are promising contributors to export diversification and boosting tourism as well as hospitality industry employment for vulnerable populations. Private sector partners are increasingly advocating for improved intellectual property rights enforcement as evidence of their willingness to engage in collective action. USAID is currently the only donor with a comprehensive, geographically focused approach to improve the lives of Azerbaijan's most vulnerable people. Other donors are active in some of these spaces, but no one is active in all of them and none have an integrated approach to economic growth and democracy and governance which gives USAID a distinct advantage.

Assumptions and Risks

Assumptions	Risks
USAID continues to be able to operate in rural Azerbaijan	Significant currency devaluation
The bilateral relationship between the United States and Azerbaijan remains healthy	Environmental volatility--drought, entomological pests
Reform agenda continues	Oil price shock
Receptivity to engaging with CSOs does not backslide	NGO registration environment worsens
	Regional conflict / N-K crisis exacerbates

Government Policies

The restrictions placed on civil society are a severe constraint to progress in this area. Wariness towards civil society had already grown in the years prior to the economic crisis as evidenced by legal and regulatory measures that suffocated the ability of civic groups to organize and operate. They also experienced increased extra-legal harassment and intimidation and fell victim to anti-NGO campaigns that sought to undermine their legitimacy. The economic crisis catalyzed action against civil society organizations as key members of the Azerbaijani government took action to mitigate any potential criticism of government action (or inaction). Around the same time, rumors circulated on pro-government and anti-Western media outlets that USAID was planning to orchestrate a ‘color revolution’ under the guise of its governance programming. The restrictive legislation and rumors of conspiracy reflected increasing distrust of civil society and Western foreign assistance by certain members of the government. The crackdowns against NGOs in 2014 and 2015 resulted in the opening of a blanket criminal case against numerous local and foreign NGOs that included fake charges of tax evasion and illegal entrepreneurship, with a number of political and religious activists, journalists, bloggers, and human rights defenders jailed.

The media in Azerbaijan is largely state-controlled or pro-government. The government’s crackdown on independent media has resulted in the detention of bloggers and independent journalists; the blocking of online opposition media sites; and the flight of dozens of journalists from the country to escape persecution. Azerbaijan’s consistent designation as a consolidated authoritarian regime reflects the government’s continued efforts to constrain fundamental freedoms and civil society.. This process has accelerated since 2014 with authorities meting out widespread and harsh punishment against those exercising their basic human rights, further closing the country’s already small civic space.

Local actors

Local actors include selected government entities, particularly those involved with the management of the private and nongovernmental sectors, as well as:

- Civil society organizations
- Citizen activists
- Media outlets, journalists, and online opinion-leaders
- Think tanks and academics
- SMEs employing targeted populations
- International donors and governments with transparent and benign intentions (IFIs, UN, European donors, Japan, etc.)
- International donors and governments that have unclear or malign intentions (Russia, China, Iran)

Evidence Sources

Evidence sources, which will be identified in more detail during PMP development in early 2020, include the following:

- Surveys and interviews of selected CSOs and government entities
- USAID/Azerbaijan survey data
- The CSOSI (Civil Society Organizations Sustainability Index)
- The MSI (Media Sustainability Index)

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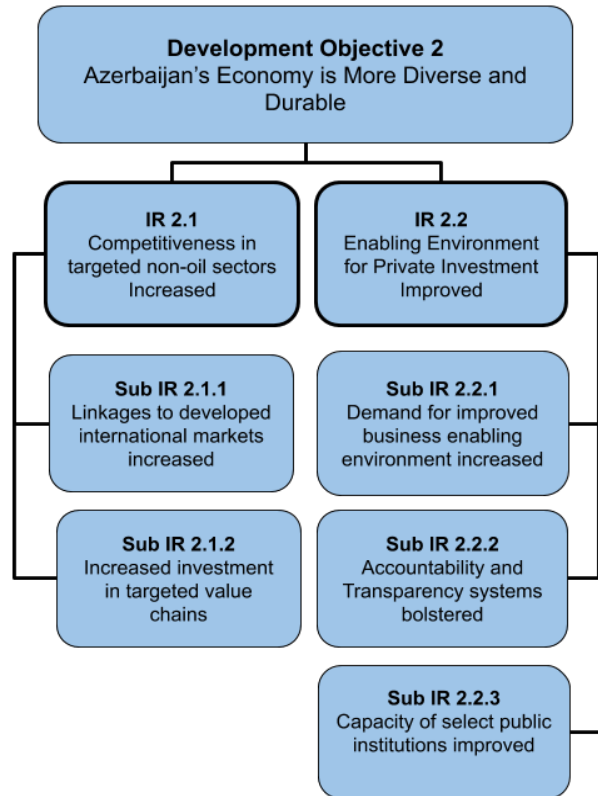
- Nations in Transit
- Azerbaijani Government official statistics; and
- Other donors' surveys and assessments.

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DO 2: Azerbaijan's Economy is more Diverse and Durable

Development Hypothesis

The Mission will utilize the Agency's Private Sector Engagement (PSE) approach to increase ties between Azerbaijan and Western-oriented companies as an incentive for Azerbaijan to ramp up economic reform, and as an additional platform to advocate for policy change. In other words, If Azerbaijan's non-oil sectors are more competitive, and the government improves its enabling environment for private sector investment, Azerbaijan's economy will be more diverse and durable against malign influence and external shocks. Catalyzing pro-growth reform efforts will attract more private sector investment, will lead to a stronger regulatory environment, ensure more transparency and accountability, and ultimately contribute to governance improvements and liberalization. Furthermore, economic diversification will build self-reliance by making Azerbaijan's economy more inclusive, more durable, less dependent on its neighbors, and less vulnerable to geopolitical volatility.



The oil sector employs less than one percent of Azerbaijan's workforce. In order to have a more inclusive and sustainable economic approach, USAID will invest in increasing the competitiveness of the non-oil sector, particularly around agricultural value chains, developing new export markets, and exploring opportunities in the tourism sector. Agriculture and tourism have the unique potential for driving women's economic empowerment and participation, which are of special interest to USAID and the government. USAID has already been able to make significant progress in diversifying exports to developed markets in key value chains. The government of Azerbaijan has also stated that it supports the diversification of the non-oil sector and invests in agriculture, tourism, transportation, and information and communication technology among others. Their commitment to economic growth is evident in the stronger J2SR scores on Economic Policy, and their investment into large non-oil infrastructure projects. Nevertheless, the majority of government expenditures for investment projects are still directed towards oil and gas infrastructure.

The international private sector is a driving force for pushing Azerbaijan to recognize intellectual property rights, provide and enforce legal judgments in dispute resolution, and improve the business enabling environment to allow for a level competitive playing field. While it is unlikely that USAID will be able to break up entrenched monopolies during the next five years, the Mission nevertheless seeks to make progress on creating an environment that allows for small and medium business growth and inspires enterprising Azerbaijanis to enter the private sector and create increased demand for change. This represents an area of overlap with the government's stated priorities.

In post-independence Azerbaijan, economic development has progressed swiftly while democratization and liberalization have regressed. Despite progress in the economy, many Azerbaijanis are still being left behind. Rural women suffer disproportionately from poverty, and face multiple forms of discrimination, official barriers to certain employment categories, and high levels of violence and insecurity as compared to rural men and urban men and women. Their voices are further stifled by a lack of civic participation and engagement outlets. All these issues are interrelated systemic problems. USAID/Azerbaijan believes that tackling any one of these issues alone will not result in any significant impact, which is why the strategy represents a systemic approach to utilize implementation mechanisms and development dialogue in an integrated way. Provides a

The strategy acknowledges that systemic change is not easy and is often hard to measure. The Mission works at multiple levels across Azerbaijani society to maximize short and long-term impact. The program will invest in supporting accountability and resilience in the economic, social, and political systems. Within each of these systems USAID will target improvements both through activities and development diplomacy dialogue.

How the DO contributes to the Journey to Self-Reliance

A major constraint to Azerbaijan's economic growth is the poor economic enabling environment, which constrains domestic business growth and limits foreign direct investment. The business climate and weak financial sector have stifled non-oil sector growth, particularly for small and medium enterprises. Entrepreneurship has been suppressed due to monopolistic firms dominating the economy, a pervasive system of bribery and corrupt payments to which private businesses are subject, and the generally high official and unofficial barriers to enter the economy. USAID's work with business associations has shown the value that the private sector can have when advocating with a united voice for changes to these conditions. For example, the Mission's support to the Azerbaijani Hazelnut Association has resulted in reduced export tariffs, lower taxes, and removal of administrative barriers to paying small farmers directly instead of through banks. These successes show the value of working through the private sector to advocate for enabling environment reforms that benefit the rural sector and increase its resilience. In addition, USAID plans to work with those entities best positioned to serve as reform agents for economic issues, particularly those related to transparency and accountability, to build a foundation for further liberalizing reforms. Even when change is incremental, it paves the way for additional governance and rule of law reform advocacy. A more durable economy with liberalized policies will contribute to a more self-reliant Azerbaijan.

How the IRs contribute to the DO

- IR 2.1: Competitiveness in targeted non-oil sectors increased
- IR 2.2: Enabling Environment for Private Sector Improved

Due to its geographic proximity, historical economic ties, large market size, and low quality standards, Russia is still the preferred destination for much of Azerbaijan's agricultural exports. The Kremlin has historically used this economic dependence to exert political and economic power on Azerbaijan. A durable and independent Azerbaijani economy will not be possible without a strong, market-oriented enabling environment. IRs 2.1 and 2.2 will address these key challenges.

- **IR 2.1: Competitiveness in targeted non-oil sectors increased:** USAID will reduce dependence on Russian markets through targeted investments in selected agriculture value chains to improve product quality and increase adherence to international standards, and by facilitating linkages with developed markets. These linkages between Azerbaijani and Western businesses that will establish sustainable and long-term commercial relationships for local businesses in developed markets abroad. USAID will continue supporting the integration of Azerbaijan into Europe's energy markets through the liberalization of its domestic energy market. This will serve to further support Azerbaijan's independence from neighboring countries and reduce European dependence on Russian energy supplies. Over the course of the strategy, USAID will also explore other non-oil, non-agriculture opportunities. Potential areas include tourism, technology, and free-trade zones. Increased competitiveness in the non-oil sector will help make Azerbaijan's economy more diverse and durable.
- **IR 2.2: Enabling Environment for Private Sector Improved:** USAID's approach under IR 2.2 will focus on working with private sector entities and the government towards increasing accountability and transparency. Activities will build the capacity of government entities committed to reform and increase public demand for transparency to ensure that reforms are sustainable in the long-term. This IR will include USAID using its convening power to facilitate public private dialogue.

How government of Azerbaijan priorities align

Azerbaijan's top priority is economic growth. Although the barriers to Azerbaijan improving its private sector performance are high, USAID has made progress in diversifying exports to developed markets in key value chains. The government of Azerbaijan has also repeatedly stated that it supports the diversification of the non-oil sector. DO 2 activities will continue to support the economic sector with targeted investments to improve Azerbaijan's business climate and build from previous work to increase the competitiveness of targeted non-oil industries. These targeted investments will address gender gaps in the private sector and advance women's economic empowerment. While women and men have the same legal rights in opening businesses as men, key barriers, including access to finance and gender stereotypes, continue to negatively affect the business climate for women.

Another significant consideration for this DO is climate change. Azerbaijan is considered one of the most flood-prone areas in the world, with floods, mudslides and landslides impacting agriculture, infrastructure and other aspects of the economy. Rising temperatures, unpredictable rain, and increased propensity for drought negatively impact agriculture, particularly rainfed agriculture. USAID and its implementing partners will implement and advocate for climate-smart agriculture wherever feasible.

Other Development Actors

The principal donors to Azerbaijan in the economic growth space are Japan, the World Bank, the European Union, Germany, Korea, the U.S. and Turkey. The U.S. private sector (e.g., John Deere, Inc.) exports a significant amount of agricultural equipment to Azerbaijan, and there is growing Foreign Direct Investment (FDI). Significantly, the Azerbaijani Sovereign Wealth fund SOFAZ has invested an estimated \$20 billion in the U.S., which is helping to launch a dialogue about the uses of Azerbaijan's domestic resources for development purposes. Other partners include the European Bank for Reconstruction and Development and the World Bank (economic governance). U.S. Government partners include the

Department of Commerce (CLDP, BFIF, SABIT, Illinois and Oklahoma Azerbaijan Agricultural Forums), the Public Affairs Section, PAS (English language education, the International Visitor and Leadership Program , Small grants programs for women entrepreneurs), the Department of Defense (DoD) (OHDACA, Section 385), the Development Credit Authority (DCA) and its successor, the Development Finance Corporation (IDFC).

Relevant Critical Assumptions and Risk Factors

Assumptions	Risks
<ul style="list-style-type: none"> ● Access to water remains unimpeded ● GOAZ continues its commitment to developing the non-oil sector ● The financial & banking sectors remain stable ● Business associations remain viable interlocutors ● GOAZ reform agenda continues ● GOAZ continues to demonstrate interest in inclusive development 	<ul style="list-style-type: none"> ● Regional Volatility ● CMKI: Russian malign interference in the economy; Russian crackdown on AZ economic migration ● Oil price shock ● Clear Choice: China's economic leverage derails GOAZ reforms ● PSE economic leverage does not influence reforms for open and accountable governance; GOAZ loses appetite for reform. ● Regional conflict / NK crisis

Government Policies

Recent political appointments of ministers and public servants have seen an increased number of younger, Western-educated figures take office. Many of these officials are eager for reform but lack the capacity and the decision-making authority to effect change. USAID will seek to build relationships, provide technical assistance, and support change where possible. The present moment offers a window of opportunity that can integrate democracy, rights and governance with economic growth. The Mission will highlight the successes of those reform champions that partner with USAID to try and catalyze the motivation of others in the government to also partner with us and amplify the success of the Government's reform agenda.

The Ministry of Economy has requested support for its efforts to monitor and evaluate government programs, particularly those that implement reform agendas. Other requests have come from a range of agencies, from the Small and Medium Enterprise Agency, to the Ministry for Labor and Social Protection, to the Food Safety Agency. The energy sector, in particular, presents opportunities in line with U.S. foreign policy goals in Europe. Responding to some of these requests for technical assistance would enable USAID to partner with the government to improve its governance writ large, making Azerbaijan a better and safer place for business and investments, for citizens and reform minded leaders, for American companies, and for the region's stability. Supporting requests from reformers and change agents within the government sends the message that USAID recognizes when positive changes are made. Creating a stronger, wider base of support inside the government creates an environment in which USAID may pursue thorny conversations about rights and fundamental freedoms in a democracy including voice and association.

Local actors

The key local actors under this Development Objective are the private sector and business and professional associations. Government partners will include the Small and Medium Business Development Agency, Food Safety Agency, Azerbaijan Export Promotion Agency, other relevant agencies under the Ministries of Economy and Agriculture, and the Presidential Administration.

Evidence Sources

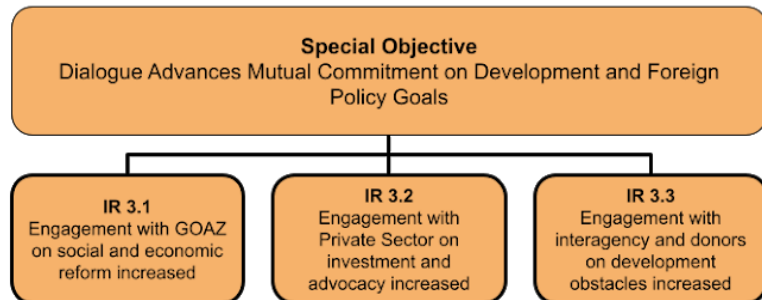
Evidence sources, which will be identified in more detail during PMP development in early 2020, include the following:

- Journey to Self-Reliance analyses
- The Financing Self-Reliance database
- Other IBRD sectoral analyses
- Other donors' reports (IBRD, EDB, ADB, UNDP)
- World Bank Doing Business Report
- EBRD sector reports
- IMF reports
- DO2 Strategic Partners, Including Local Actors

Special Objective: Dialogue Advances Mutual Commitment on Development and Foreign Policy Goals

Special Objective Hypothesis

Regardless of the effectiveness of the Development Objectives, their true potential cannot be realized unless the U.S. Government engages in a vigorous and purposeful engagement with host country counterparts to further J2SR goals, particularly around commitment to open and accountable governance. Given its limited budgetary envelope, USAID must also leverage additional Azerbaijani resources to complement its project gains and increase their impact. Without this Special Objective, USAID would not have a systematic means to undertake the critically important dialogue needed for Azerbaijan's transition to self-reliance as described in the J2SR.



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The development hypothesis for the SO is: If USAID (1) engages with the GOAZ on investing in socio-economic reform; (2) engages with the private sector on investing in Azerbaijan and advocating for reform; (3) and engages with the interagency and donors on addressing development obstacles, THEN the strategic dialogue will advance commitment on development and foreign policy goals. USAID is undertaking a systematic development-diplomacy dialogue on shared economic and national interests, involving the private sector, the U.S. interagency, and donor advocacy. Intermediate Results 3.2 and 3.3 are designed to increase the government's commitment to socio-economic reform, and support the introduction of reforms in other areas, such as human rights, good governance, and rule of law.

USAID-funded activities alone will be insufficient to achieve this. Investment from the Azerbaijani government, other donors, the private sector, and local communities are required to achieve strategic impact. It is expected that USAID will be able to leverage two to three times its own resource levels over the course of the Strategy, above and beyond complementary donor programming. The Mission will collaborate with other donors to distribute activities across vulnerable geographic regions, avoid duplication, maximize investment, and enhance results. An effective partnership will unlock domestic resources to amplify U.S. investment and Azerbaijani commitment to reforms. These will further the Mission's goals of economic diversification and reducing community vulnerability.

USAID will endeavor to leverage additional private funding for greater scale, sustainability, and effectiveness. Private-sector partners can advocate to improve the business enabling environment and deepen economic and commercial ties with American and Western-oriented countries. This mutually beneficial arrangement provides opportunities for U.S. firms to invest in Azerbaijan and further development and foreign policy objectives. The first step is to convene private firms to unite in their advocacy for economic reform. As these relationships mature, the Mission will encourage its partners to integrate governance, human rights, and civil society issues into their advocacy platform. This is, in fact, not a huge leap for Azerbaijan. A recent Mission event hosted a Turkish Business Confederation

President who cited the importance of business leaders and associations in building a healthy, more prosperous and equitable society. This message was greeted with nods of agreement throughout the Azerbaijani private sector and government audience.

How the SO contributes to the Journey to Self-Reliance

USAID/Azerbaijan is rethinking the policies, programmatic tools, and other measures across the portfolio to promote greater commitment from the government of Azerbaijan to urge it further down the path to self-reliance. To embrace this vision, we must take a critical look both at what we ask of government counterparts and how we hold them and ourselves equally accountable for results. The purpose in undertaking this rethinking is to aim to achieve more progress toward the goal of having Azerbaijan as a true co-partner and unlocking host country investment into areas that are key to Azerbaijan's self-reliance.

The Special Objective is intrinsically linked to the funded Development Objectives above and is critical for the success of U.S. development and diplomacy objectives across the portfolio. Even if DO 1 and DO 2 were accomplished during the strategy period, this would be unlikely to move the U.S. development agenda forward and push Azerbaijan forward on its path to self-reliance. USAID's integrated diplomatic approach to engage the Azerbaijani government, and leverage the private sector, interagency, and donor partners to advocate for reforms is complementary to grassroots efforts under DOs 1 and 2 through an amplification effect, yet distinct as it solely focuses on host-country commitment as the ultimate objective, instead of focusing on capacity and commitment issues that are addressed under DOs 1 and 2. The combination of USAID's activities, development diplomacy dialogue, and leveraging of additional resources will provide a solid foundation for pressure and incentives to push the government of Azerbaijan to increase its commitment towards J2SR.

How the IRs contribute to the Special Objective

- IR 3.1: Engagement with GOAZ on social and economic reform increased
- IR 3.2: Engagement with Private Sector on investment and advocacy increased
- IR 3.3: Engagement with interagency and donors on development obstacles increased

USAID's effectiveness in this dynamic context demands an integrated development and diplomacy approach to respond to complex foreign policy priorities and the commitment weaknesses identified in the J2SR roadmap. Azerbaijan suffers from weaknesses in commitment to open and accountable governance combined with capacity gaps in civil society, media, and export sophistication. Since the government remains wary of U.S. efforts to strengthen civil society organizations or work with political parties, correlating assistance to civil society and political processes with color revolutions in neighboring countries and in the region, USAID's suggested strategy for addressing these weaknesses is through careful, measured, and flexible programming, integrated across economic growth and democracy, rights and governance, combined with development dialogue with key interlocutors and influencers.

The objective of IR 3.1 is to increase the government's commitment and investment for socio-economic reform, and other areas that will contribute to Azerbaijan's self-reliance. This will involve many levels of engagement, including high level visits, regular in-country senior level meetings, and within working level discussions. During the first two years of the strategy, the primary entry point for this dialogue will be

through the lens of economic development. At that point, the Mission will assess progress towards the IR, along with reflections regarding the operating environment and overall relationship with the government. If the outlook remains stagnant, or has regressed, USAID will re-evaluate its development-diplomacy approach. However, if we have witnessed increasing commitment and investment for reforms, the Mission will amend the IR to reflect an increasing emphasis on leveraging commitment for broader governance reforms as well.

The Private Sector is one of those key influencers that can play a major factor for economic reform. Under IR 3.2, USAID will work to leverage private sector resources, and mobilize the private sector to utilize its voice to push for economic reforms that can improve the enabling environment. A potential area through which this is possible is the mobilization and strengthening of private sector associations, but also through facilitated partnerships between the private sector, private sector associations, civil society, and the government to implement solutions to identified reform challenges. USAID is already engaging these actors and has positively assessed the potential for these partnerships to contribute to real change. As quasi civil society organizations, private sector associations can mobilize citizens from around the country to advocate with a united voice. USAID experience has shown that these associations can be extremely effective in pushing for reforms and economic incentives for their members. Within this IR, USAID will work with committed partners under DO 2, but also expand its reach to a broader set of private sector partners that can influence government decision-making, including American companies with the potential to bring significant foreign direct investment opportunities to Azerbaijan. The combination of the bottom-up private sector association approach, with the foreign direct investment potential, provides USAID with a significant opportunity to advance reforms that are crucial for Azerbaijan's self-reliance and economic resilience.

This SO is also critical to achieving the results required by the Agency's new Project on Redefining the Development Relationship. The SO is the vehicle by which we will strengthen the commitment and capacity of the Azerbaijani government. It will enhance our coordination with other donors to promote burden-sharing and leverage the collective influence of our donor partners. As strategy implementation proceeds, we will seek ways to incentivize policy reforms and cost-sharing through our bilateral agreements and other Program Cycle tools. Finally, we will enhance donor-coordination efforts in the field around burden-sharing and incentivizing financial, technical, and policy commitments.

The barriers to Azerbaijan's journey to self-reliance have been clearly illustrated. USAID's success over the last two years has largely been possible because of the close relationship that it has with its Embassy colleagues, and the continuous advocacy for key issues in all working and high-level engagements. IR 3.3 expands this relationship by charting a concrete path for USAID, the interagency, and the donor community to utilize a single voice in pressing for the removal of key barriers that inhibit self-reliance. Over the next five years we will advocate for the simplification of CSO registration requirements, enforcement of Intellectual Property Rights (IPR)', and opportunities for increased host-country-CSO engagement. USAID will continuously work with interagency colleagues to track progress on these issues and begin tackling others as space is created. In parallel, USAID will use its leadership in the donor community to mobilize donors to advocate for these same issues using a unified message.

There is opportunity within this objective to further strengthen our efforts to promote C-TIP objectives. To date, the government has amended legislation, developed a relevant National Action Plan, established an Anti-Trafficking Department within the Ministry of Interior, created a division for

increasing awareness of human trafficking, established a Victim's Assistance Center, trained relevant professionals and revised the rules for the early identification of victims of trafficking. Nevertheless, implementation of compliance standards in such areas as proactive identification of victims internally (including forced labor and child trafficking), prosecution of trafficking offenses, and a lack of victim-centered approaches within law enforcement bodies show regress. These are encouraging developments, but USAID will take the opportunities presented by this Special Objective to bring about more vigorous enforcement actions and further raise public awareness about this important issue.

How Government of Azerbaijan Priorities Align

Until recently, the Mission has been unable to engage in open and honest dialogue at senior levels on grand corruption, political processes, and human rights without risking reprisals or threatening the working relationship. As project officers engage working-level counterparts and reform-minded officials, Mission leadership is working to expand donor coordination efforts to mobilize a single voice on key reform issues like NGO and partner registration. Whenever possible, USAID leverages State leadership and VIP visits to push the government for reform at the highest levels.

Other Development Actors

- Government of Azerbaijan: Ministry of Economy, Ministry of Agriculture, Presidential Administration, Ministry of Justice, Tourism Agency, Diaspora Agency,
- Private Sector: Azerbaijani firms, U.S. and international firms, Chamber of Commerce
- Western Donor Countries: EU, IBRD, UK
- Country Team partners: Department of Commerce, STATE sections, Department of Defense (DOD), Development Finance Corporation (DFC)

Assumptions and Risks

Assumptions:	Risks:
<ul style="list-style-type: none"> ● Government of Azerbaijan continues to be open to U.S. overtures and dialogue ● GOAZ continues its commitment to developing the non-oil sector ● The financial & banking sectors remain stable ● Business associations remain viable interlocutors ● Reform agenda continues ● Government continues to demonstrate interest in inclusive development ● EU and UK policies remain supportive 	<ul style="list-style-type: none"> ● Interference from neighboring malign actors ● Absence of foreign assistance resources ● Difference of approach with partners ● Uncertainty about U.S. Foreign policy commitments

Government Policies

The economic downturn and improvements in bilateral relations have recently provided opportunities for USAID. Only one USAID partner’s registration has been completed despite ostensible government support for their development activities. Partner registrations continue to represent a proxy indicator for government support for our work. USAID has also received numerous host-country requests for technical assistance, which include the Central Bank, the Ministry of Economy, the Ministry of Agriculture and the Economic Reform Center. Mission staff frequently meet with government technical counterparts to discuss opportunities for partnership. This renewed spirit of host-country engagement reflects an increased interest in USAID’s comparative advantage to provide meaningful development assistance.

Local Actors

The two key actors in this Special Objective are the government of Azerbaijan and the private sector. It is expected that much of the work in achieving the goals of this objective will involve other donors and working groups. The key donors active in the economic reform space include the European Bank for Reconstruction and Development and the World Bank. In addition to the U.S., these institutions are taking the lead in the policy discussions concerning Azerbaijan’s economic governance. The oil and gas industry is a major influence on national economic policy. Russia constitutes around 90% of the non-oil export market and can and does easily disrupt export activities through the imposition of arbitrary and punitive nontariff trade barriers. USAID will also conduct a parallel dialogue on development needs and challenges with civil society organizations.

Evidence Sources

Because this Special Objective underlies the strategic approach of the two DOs, the same principal evidentiary sources will be used to measure progress. More than is the case with the DOs, some of the measurement of performance may rely on anecdotal or attitudinal evidence. As with the DOs, the sources will be identified in more detail during PMP development in early 2020, including the following:

- Journey to Self-Reliance analyses
- Financing Self-Reliance database
- Other IBRD sectoral analyses
- Other donor reports (IBRD, EDB, ADB, UNDP)
- World Bank Doing Business Report
- EBRD sector reports
- IMF reports

Monitoring, Evaluation, and Learning

The Mission is designing a monitoring, evaluation, learning, and data (MELD) mechanism to support the strategy implementation and improve performance management. This mechanism will complement the Mission's existing culture of Collaborating, Learning and Adapting (CLA) principles and emphasis on data for evidence-based decision making. The following is an overview of the Mission's strategic MEL approach, and will be further detailed in the PMP.

Monitoring

Over the past two years the Mission has worked extensively to improve data collection, monitoring, and performance management at all levels. Throughout the course of the strategy, the Mission will conduct an annual comprehensive monitoring and evaluation analysis of its projects, an annual field portfolio review, an annual strategy-level portfolio review, one mid-course stocktaking, two annual quarterly performance reviews (staggered with the portfolio reviews), quarterly Project Team monitoring trips, and regular activity manager site visits. These events will allow the Mission to gather a variety of data at all levels of the Program Cycle, create opportunities for joint analysis of data, and provide evidence for improved decision making and adaptive management. The strategy level portfolio review and the mid-course stocktaking will be an opportunity to explore changes in the operating context, discuss whether the identified scenarios are being triggered, evaluate progress towards DO and SO milestones, and discuss J2SR achievements.

Evaluation

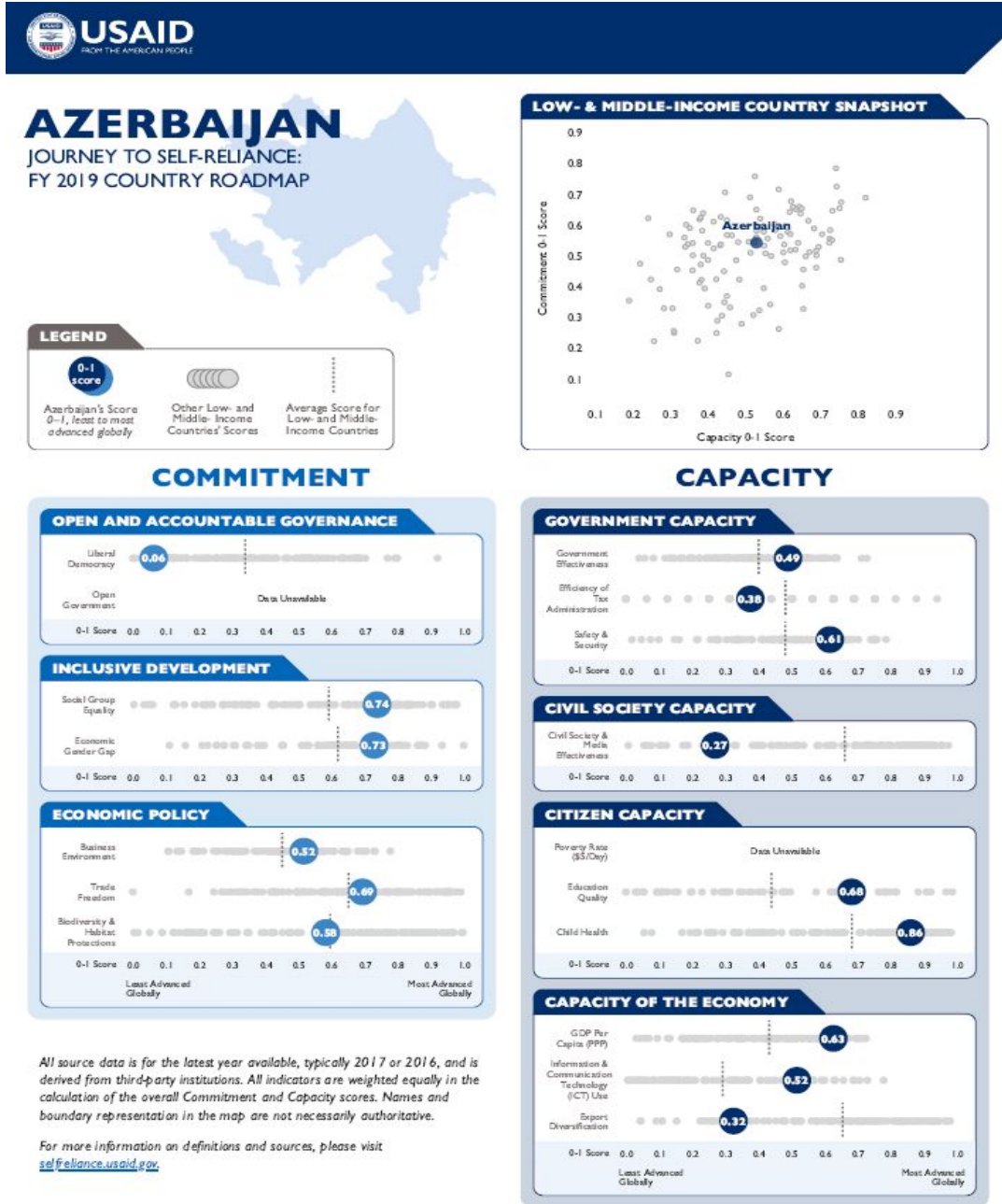
USAID/Azerbaijan is committed to using evaluations to enhance accountability and learning within the Mission. This is in line with ADS and evaluation policy, which works to build evaluation into project and activity designs, decrease bias, increase utilization, and enhance the level of rigor used in decision-making for both performance evaluations as well as impact evaluations. Mission policy requires that each large USAID-procured activity undergo at least one external evaluation to identify lessons learned. Consistent with USAID's Evaluation Policy, the Mission will perform a project-level performance evaluation. The project and activity evaluations help the Mission understand whether we are achieving the intended results at the IR and Sub-IR levels, and generate learning opportunities that will help inform program management, future program designs, and strategy course corrections.

Learning

USAID/Azerbaijan has a robust culture of CLA and implements key learning events throughout the year that will be utilized for strategic learning, such as the annual field portfolio review and annual strategy-level portfolio review. These events are opportunities for the Mission to discuss its learning agenda, foster internal and external collaboration, and serve as pause and reflect moments to inform our adaptive management approach. The new monitoring, evaluation and learning (MEL) mechanism will also provide support to further improve the Mission's ability to conduct learning-focused events.

Required Annexes

Annex 1: Journey to Self-Reliance Country Roadmap



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