

South Caucasus



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1. Summary

Swedish assistance to the countries of the South Caucasus grew markedly over the past year. The opening of the regional coordination office in Tbilisi, March 2004 signalled Sweden's commitment to increase support to the new Georgian government in its efforts toward democratic reform. With a renewed commitment to the development of an integrated action plan and to the achievement of the Millennium Development Goals, the new government has demonstrated its openness to reform, although tangible results in many sectors have yet to be seen. Challenges to the territorial integrity of Georgia and other political events have also greatly affected the government's ability to decentralize authority, contrary to initial commitments to strengthen regional structures. One year has passed since the Rose Revolution in November 2003 with practically all decision making power still remaining in the hands of the president. Although perceived as progressive, many governmental anti-corruption and restructuring efforts at the social level have left the population with a sense of uncertainty. Continuous and often impulsive staff shuffling within the new government has also made effective cooperation with the donor community difficult. The level of absorption capacity of both governmental and local institutions has also come under discussion. In its attempts improve credibility among the populace the new government has made every effort to display tangible results, leading to the recent criticism that donors continue to provide development support in the form of technical assistance only without provision of any means to apply new knowledge (i.e., equipment or other physical resources).

While Armenia and Azerbaijan have continued to maintain a political status quo, the effect of the Georgian revolution continues to serve as a backdrop for movements toward political reform. With the resulting increase in visibility of the region in the world arena, both countries have felt substantial pressure toward democratic reform, although this has been reflected by each government at varying levels of interest. Of the two, Armenia remains the most open to democratic reform with a well-developed and realistic PRSP, while the authoritarian government in Azerbaijan continues to suppress human rights and impede development in the social and civic sectors. The political conflict between Armenia and Azerbaijan over the region of Nagorno-Karabakh remains at a standstill, making regional cooperation between the countries difficult.

2. Strategic Country Development Trends

2.1 Georgia

Political Development, Good Governance, Human Rights

Positive achievements in the *political* arena included the reunification of the autonomous region of Adjara to Georgia in November 2004 and maintaining of strained but diplomatic relations with Russia and the authorities in South Ossetia and Abkhazia. Georgia has also placed great emphasis on actively developing relations with the international community and on increasing its efforts toward integration with the *EU* and *NATO*.

Concerns in the area of *human rights* have been raised by international and local organizations. While the media is proclaimed to operate freely, there are concerns that the diversity of media has been significantly reduced since most of the media formerly connected to the opposition now supports the government, leaving very few outlets without a pro-government orientation. On a more positive note, the new government has responded admirably in its efforts to pass legislation supporting religious and ethnic tolerance that complies with the Council of Europe and international human rights standards on freedom of conscience.

Although health care and education are priorities included in the Millennium Development Goals programme, concrete strategies from the respective ministries are still at the development stage.

Poverty Reduction

The new government adopted the Economic Development and Poverty Reduction Programme (EDPRP) of the previous government which set urgent priorities on the following sectors: restructuring government administration, economic growth, energy diversification, improving national defence, law enforcement and respect for rule of law, investment in education and the promotion of stable relations with Georgia's neighbours and partners. Coordination and monitoring of the EDPRP was lacking throughout the year, however late in 2004, preparation of a government action plan for 2005-2007 began.

Economic Development

According to the World Bank, an estimated 55% of the Georgian population is currently below the poverty line. The country faces a number of challenges to boost economic growth and arrest the serious and worsen-

ing deterioration in living standards. Priorities have been set to refine the business environment by removing constraints to private sector development, and to improve the institutional framework by reforming legal, regulatory, and tax administration systems.

Following the preparation of the 2004 budget, tax collections are rebounding, growing by 30% in January 2004 compared with the previous year, with salaries and pensions being paid on time after months of arrears under the former government. The budgetary increase should also allow the government to eliminate domestic expenditure arrears and increase spending on core social and infrastructure projects.

2.2 Armenia

Following the presidential election in 2003, the situation in Armenia still remains one of tense stability. The pace of democratization is rather slow and in many instances Armenia still comes short of internationally accepted democratic principles. Economically, the country remains largely dependent on external remittances with more than 43% of the population beneath the poverty level. Despite government promises of a peaceful settlement, the conflict with Azerbaijan over the region of Nagorno-Karabakh continues to be used by both governments as a tool for negotiation. The current government also maintains much of the infrastructure from the Soviet regime and still enjoys strong support from the military, major industry and other key social groups, making constructive involvement of civil society difficult.

2.3 Azerbaijan

In Azerbaijan, the administration has been in power since 1993 and continues under the rule of Ilhan Aliiev, son of the former president. Perceived as being progressive and reform-oriented, Aliiev has maintained a careful balance between retaining his father's former political associates and the recent appointing of a number of western-educated young people to government posts. Although the country has developed a PRSP, contributions from the government leading toward a stronger social infrastructure have been few, discouraging donor interest in supporting the current regime. Like Armenia, Azerbaijan is still perceived to be a semi-autocratic state with a long-standing record of pressuring civil society groups and arbitrarily limiting critical expression and political activism. Government interest in improving human rights, gender issues and an independent media is extremely low. Economically, 45% of the population lives below the poverty line but according to the IMF, Azerbaijan's macroeconomic performance has remained strong, and economic prospects are promising. Real GDP growth is expected to remain robust, driven by oil. As a result, any reforms supported by the government have focused primarily on the economy sector, with anti-corruption efforts made to enhance the transparency of budget spending. While these reforms have increased transparency and reduced small-scale corruption, progress in reducing large-scale corruption has been limited.

3. Swedish Development Cooperation

3.1 Strategic Assessment and Considerations

As stated in the regional strategy 2003-2005, the overall objective of Sweden's development cooperation with the countries of the South Caucasus is to create the necessary conditions for reducing poverty and preventing conflict by means of initiatives aimed at promoting sustainable development and improving the living standard of the population. While the regional strategy for the South Caucasus places emphasis on Georgia, this focus was strengthened with the Rose Revolution when Sweden felt the need to support the new government in its efforts towards democratic reform. The increased support to the new government was also motivated by the potential positive impact a continued democratisation process could have on the other countries in the region. The upcoming strategy for 2006-2008 will provide Sweden the opportunity to align development efforts more closely with the priorities currently being set by the new government of Georgia. Sustained dialogue with donors, project partners and government officials will be given highest importance in the assessment of areas for strategic development in all three countries.

The recent commitment by the *European Union* to increase its support to Georgia makes it imperative for Sweden to reassess its coordination with major donors. Although many activities have and are planned to be implemented in coordination with the World Bank, Swedish assistance can readily be applied in cooperation with the EU as well. In its latest assessment of Georgia, the Millennium Development Goals Committee named Georgia a potential "fast track" country, i.e., able to demonstrate maximum results in a short period of time given the proper resources. It is recommended that Sweden look to strategic partnering possibilities to better support the activities of the EU.

3.2 Overall Country Portfolio Review

The focus of activities during 2004 has been *Georgia* and in particular efforts to support the new government in its efforts towards increased democracy and its fight against corruption. Sweden has expressed its willingness to provide support in a number of different sectors e.g. police and penitentiary reform, retraining of civil servants, child welfare, and agriculture. Despite interest from the Georgian counterpart, few of the discussions have resulted in proposals. This has mainly been due to continuous change in government staff, lack of policies or implementation strategies and the vast number of donors seeking the attention of

the new government. As the avenue for bilateral cooperation has been limited, Sweden has channeled increased support through UNDP and EU. The staff changes and lack of clarity in government priorities have also resulted in putting several of the ongoing projects on hold. The level of disbursement has therefore been lower than expected.

Because of the focus on Georgia, less emphasis has been put on starting up new projects in *Armenia*. The support to the forest sector increased with an additional project to a total of 31% of the portfolio in Armenia. The planned continuation for cooperation on the deinstitutionalization of children which ended at the beginning of the year was not realized, resulting in lower disbursements to this sector than anticipated. Lack of progress in this sector was partly due to lack of commitment on the part of the World Bank and the Armenian partner and partly due to the lack of capacity of the Swedish partner.

Swedish support to *Azerbaijan* remains the most limited (5%) in the region and no new projects have been funded during the reporting period, apart from the regional projects that also benefit Azerbaijan. The sector of human rights continues to be the area of focus for Azerbaijan and during the reporting period additional support to the Ombudsman institution was prepared.

Although the three countries of the South Caucasus have a number of cultural and historical ties, the differing political, religious and economic realities make *regional* participation a challenge. The history of development cooperation in the region has shown that the involvement of two countries is necessary at times to make regional cooperation the most effective. However, when focused on the level of civil society, like in the new UNIFEM regional project, the cooperation is easier. Cooperation with a strong technical focus also tend to be easier to implement, like the current project with the three air transport departments on introduction of EU aviation standards which received funding for its last phase during the reporting period.

A large share of the portfolio is *channeled* through multilateral organizations and during the year three of the five new projects have been channeled through organizations rather than through bilateral cooperation. With the strengthened presence in the field and prospects for clearer priorities on behalf of the Georgian government it is anticipated that the share of bilateral projects can be increased in the coming year. Efforts to increase cooperation between NGOs in Sweden and the South Caucasus and thereby channel support through civil society have not been fruitful. The campaign through Forum Syd to increase cooperation was halted when it became clear that Swedish NGOs were not interested in cooperation under current funding arrangements i.e. 20% own contribution.

Contribution overview:

Georgia	30.1 MSEK
Armenia	16.9 MSEK
Azerbaijan	3.4 MSEK
Regional	20.5 MSEK
TOTAL	71 MSEK

The forecast for 2005 is 80 MSEK for the region.

3.3 Sector-wise Analysis

Human Rights and Democracy

Support to human rights and democracy is a priority throughout the region. However, the support takes different forms in the different countries:

Strengthening Democratic Reform

In Georgia, Sweden supports the democratisation process of the new government through a number of projects. The UNDP Governance Reform project is a prime example of government and donor cooperation, involving UNDP, Sida and the Soros Foundation. While somewhat controversial at the time of its inception, this programme has proven extremely successful in the fight against corruption on the ministerial level and has already drawn an increased number of competent applicants to government positions. Already in the first year of the project, the government increased its efforts to demonstrate transparency and began to pay top level salaries directly from the state budget. Such initiative on the part of the government is highly commended and validates the initial risk taken by the donors.

Another example in Georgia is the cooperation between the Raoul Wallenberg Institute in Sweden and the Office of the Public Defender where Swedish assistance continues to be the principle source of support. Due to changes in governmental appointments, the office was left vacant for most of 2004, resulting in the postponement of all project activities. These resumed with the parliament's approval of the new Ombudsman in November.

Promoting Human Rights through Civil Society

In Georgia, new efforts in the field of human rights have been directed at the new government but two ongoing projects have continued to be highly relevant and successful during 2004. The Human Rights Education Programme of the Norwegian Refugee Council focuses on increasing the capacity, knowledge and competence of school teachers by offering training in creative teaching methods. The introduction of drama in education has proven extremely successful in communicating information on HIV/AIDS awareness, trafficking and gender issues to school age children. The Tbilisi School of Political Studies has effectively provided a venue for public debate in which young politicians, journalists, parliament members and other key figures in society have had access to a number of outside experts, many of them from Sweden. This debate has served as a counterbalance to the apparent increase in the government's control of the media.

Support to human rights in Azerbaijan is only channelled through civil society, namely the Azerbaijan Young Lawyers Association. The association is a small but critical and strategic NGO engaged in strengthening civil society and raising public awareness on human rights issues, and has a real possibility to make a difference.

Promoting Independent Media

The promotion of the independent media as a tool for advocacy and protection of human rights remains a priority for the region as a whole. The role of an independent media is crucial in Georgia as the new government attempts to promote democratic reform without neglecting rule of law and human rights issues. The project implemented by the

Swedish organization Fojo has provided training for journalists from all three countries both in Sweden and strengthened networks of journalists. The book, 'Elections, Authority and the Mass Media', is now publicly available and has been integrated into university curricula in Azerbaijan. The project ended during the reporting period and discussions have been held with several actors for new projects in this sector but the recently strengthened government control over the media in Georgia led Sida to investigate further possibilities for fruitful support to the sector.

Gender Equality

Support to gender equality and women's rights is a priority of the strategy and with the funding of UNIFEM's regional gender project 'Women for Conflict Prevention and Peace Building in the South Caucasus' the support in this sector increased. Many of the projects in the area of gender equality integrate a conflict management prevention perspective in the work. Another example is Kvinna till Kvinna which currently provides support to 25 local women's organisations which focus on the empowerment of women in various fields. In September 2004, Kvinna till Kvinna expanded its activities to encompass the entire region of the South Caucasus, providing support to an additional nine women's organisations in the region.

The Women's Resource Center in Akhaltsikhe, an area of potential ethnic conflict, administered by UNDP serves as a resource to promote the role of women among local policy makers. The project includes efforts to reduce poverty through provision of micro-credits to local residents, the majority of whom are women. A number of small enterprises are now financially self-sustaining as a result of this program.

Sweden also supports the activities of international organizations such as Conciliation Resources and International Alert in the areas of conflict prevention, as well as humanitarian activities of the ICRC.

Social Sector

Although child welfare is hardly mentioned in Georgia's poverty reduction strategy, Swedish assistance planned to cooperate with the World Bank in its Social Protection Reform Project through a component on the de-institutionalisation of children. The project, however, has been delayed by the Rose Revolution and the continued lack of any government strategy regarding children. Recent developments include an inter-ministerial committee administered by UNICEF and funded in part by TACIS. The committee may result in clearer government priorities in this area. In the area of health, Swedish Health Care continues to support health reform in Georgia by providing training to key hospital administrators at the principal public hospitals.

For Armenia, Sweden's strategy identifies the social sector as the first priority. The Children's Initiative project, which was administered by the University of Stockholm through 2003 focused on training social workers in three pilot centres for prevention of institutionalisation of children. As mentioned, the planned continuation of this project did not take place. However, the social workers that received training as well as their respective institutions are currently serving as models for UNICEF and a number of NGOs active in the sector of child welfare.

Enabling the poor to support themselves/ rural development

Support to projects in the sector of rural development has proven the most successful in directly improving the living standards of the poor.

As mentioned in the EDPRP, the economy of Georgia is based primarily on agriculture with 50% of the labour market in rural areas. Swedish assistance has therefore focused on reducing poverty by targeting support to the level of the producer. The dairy project “From Cow to Consumer” is the second largest project in Georgia by volume (18%). Although there are successes in the project e.g. the creation of the first farmer association in Georgia, and the creation of a market for fresh milk through an aggressive public awareness campaign, the project has faced many problems. For example, lack of trust between the farmers and the commercial partner resulting in non-collection of milk. Through the various efforts on Sida’s part e.g. provision of additional funds, the immediate problems were solved. The project has enjoyed the full support of the new Ministry of Agriculture, which is now involved in the drafting of a new project in the dairy sector.

Rural development in Armenia is focused on the forestry sector, where support to development of forest institutions and legal framework through the Environmental Resources Management and in cooperation with the World Bank constitutes the largest project. Over the past year, the project faced a number of difficulties in administration, resulting from an unexpected change in the division of responsibility between the ministries involved and the threat of bankruptcy of one of the key forest institutions involved in the project. Additional assistance was therefore approved for the development of a financial stabilisation plan for the institution. Sida also decided to commission a quality assurance mission next year to help solve these problems. New support was also provided to the Armenian Agricultural Academy in 2004 which will, in the long term meet the government’s needs for increased capacity in forestry.

In line with Armenia’s, and more recently, Georgia’s priority to support the formation of mechanisms to assign ownership rights of land, Sweden supports the countries’ authorities for land management and cadastre. In November 2004 Sweden renewed support to the National Agency for Public Registry in Georgia. In coordination with the many other donors involved in the two countries, Swedish efforts will help reduce poverty by assisting the government to develop the mechanisms allowing the population access to land, safeguarding of real estate ownership and consolidation of rural land.

Strengthening Institutions

While all three countries face problems with civil registration, the statistics projects in Armenia and Azerbaijan have successfully impacted government ability to target vulnerable social groups and official publications on statistics ranging from time use, farm registry, environment, living conditions and gender are now available to the public. Cooperation with Swedish experts in this area could potentially benefit Georgia as it prepares a comprehensive civil registration project. The statistics will also facilitate the monitoring of PRSP implementation progress.

Sweden has provided support to the labour market authorities in Armenia and Georgia for several years. The support has concerned the development of labour market policies and introduction of active employment services. Both projects were evaluated during the reporting period. The evaluation showed that the project in Armenia was very successful, largely due to strong government ownership. The similar project in Georgia was, however, deemed unsuccessful and no longer in line with government priorities. While reducing unemployment is listed in the EDPRP as one of the highest priorities to combat poverty, the new government failed to identify

labour market policies as a priority and instead put emphasis on social benefits for the poor. In addition, the mass layoffs in the public services meant that much of the capacity built in the project was lost. The evaluation recommended the suspension of the project until the government had decided on its method to deal with the unemployed.

Environment

Swedish involvement in the area of environment is currently limited to its support in the regional water conservation project, the Prevention of Transboundary Degradation of the Kura-Aras River Basin project. Environment ranks lowest on the list of government priorities for all three countries, with a number of urgent issues needing to be resolved. Existing strategies in this area at the government level, if any, are decidedly out of date, remnants inherited from the Soviet period.

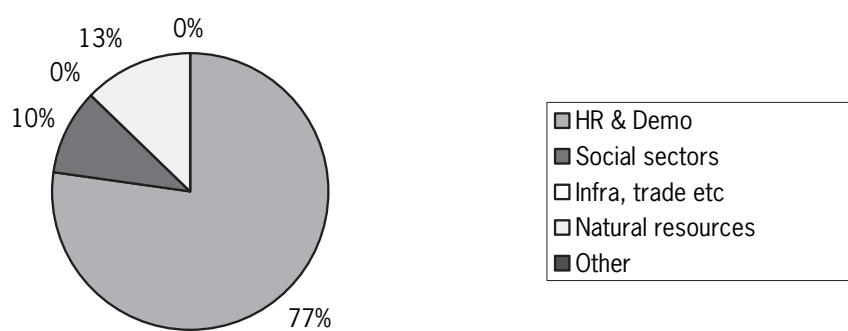
The evident lack of government initiatives and reluctance to allocate resources to this sector makes cooperation with local non-government organizations a possible alternative. A study of the regional environmental needs and possibilities for cooperation was commissioned in late 2004. It is highly recommended that Swedish expertise be invested in this sector at the local or regional level.

4. Administrative Issues

The regional coordination office for the South Caucasus was established as a project administered by the consultant firm, *SPM Consultants*, Sweden. The original staff of one regional coordinator and one office assistant was increased in December 2004 to include two national programme officers. The addition of these two staff members will greatly increase the capacity of the field office to work more effectively with donors and local authorities and will cooperate more effectively with Sida/Stockholm.

Annex 1

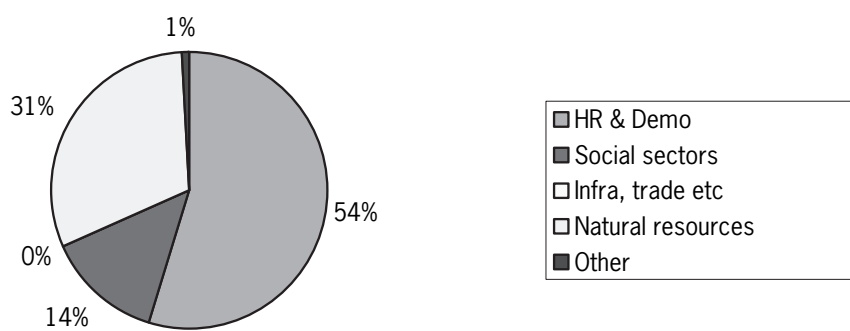
Georgia: Disbursed 2004



NOTE: The sectors presented in the chart above are those of Sida's financial planning system and do not in every instance coincide with the sectors outlined in the strategy. For example, the sector 'Human Rights and Democracy' for Georgia include projects in the area of labour market and land management.

Annex 2

Armenia: Disbursed 2004



Sector	MSEK	%
HR&Demo	9,2	55%
Social sectors	2,3	14%
Infra, trade etc	0,0	0%
Natural resources	5,2	31%
Other	0,2	1%
Grand Total	16,9	100%

NOTE: The sectors presented in the chart above are those of Sida's financial planning system and do not in every instance coincide with the sectors outlined in the strategy. For example, the sector 'Human Rights and Democracy' for Armenia include projects in the area of labour market, statistics and land management.

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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