



# Swiss Cooperation Strategy South Caucasus 2013–2016



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Swiss Agency for Development and Cooperation SDC

State Secretariat for Economic Affairs SECO

Directorate of Political Affairs DPA



# Introduction

The South Caucasus is a geopolitically important region at the crossroads of Europe and Asia with strategic energy routes. Twenty years after the break-up of the Soviet Union, the Republics of Armenia, Azerbaijan and Georgia are still facing considerable challenges in creating sustainable and inclusive economic growth and in building lasting peace and pluralistic societies. Yet the three countries have significant human capital, a rich cultural heritage and the economic potential to create a prosperous future.

Thanks to its long-standing engagement in the region, Switzerland has built strong and trustful relations with the governments and populations of Armenia, Azerbaijan and Georgia. Over the past fifteen years, cooperation programmes initiated by Switzerland have contributed to improving the living conditions of the people in targeted areas and to better functioning institutions. Swiss diplomacy has provided its good offices and supported dialogue processes and confidence building measures to address in a constructive manner the conflicts affecting the region.

Switzerland is ready to continue assisting the three countries in their pursuit of economic development, good governance and human security. This Cooperation Strategy South Caucasus 2013–2016 is therefore an expression of Switzerland's renewed commitment to contribute to democracy, peace and prosperity in the region. Switzerland will provide technical assistance and humanitarian aid, promote peace, human rights and confidence building measures, all of which complement each other and are mutually reinforcing. Altogether, it will invest around CHF 28 million per year in the region.

In line with the reform agendas of the governments of Armenia, Azerbaijan and Georgia, the Swiss Agency for Development and Cooperation (SDC), the State Secretariat for Economic Affairs (SECO) and the Directorate of Political Affairs (DPA) have prepared this Strategy, which outlines the major areas of engagement.

Switzerland will contribute to improving the economic framework conditions, strengthening the private sector and increasing agricultural productivity in the South Caucasus. Technical assistance will be made available to build up the capacities of central and sub-national government institutions. Furthermore, Switzerland will continue to provide humanitarian aid to support the integration of vulnerable population groups and at the same time pursue its efforts in the areas of human security and conflict transformation in the region. The Swiss chairmanship of the Organisation for Security and Cooperation in Europe (OSCE) in 2014 will be an additional opportunity to support progress in these fields.

We are confident that the goals and priorities set out in this strategy are key for the further economic, political and social transition of the South Caucasus region and for the well-being of the people of Armenia, Azerbaijan and Georgia.

Bern, December 2012



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# List of Abbreviations

AZN	Azerbaijan manat
CHF	Swiss franc
DPA	Directorate of Political Affairs of the FDFA
DRR	Disaster risk reduction
EAER	Federal Department of Economic Affairs, Education and Research
EITI	Extractive Industries Transparency Initiative
EU	European Union
FDFA	Federal Department of Foreign Affairs
GDP	Gross domestic product
HSD	Human Security Division of the DPA
ICRC	International Committee of the Red Cross
IDPs	Internally displaced persons
m	Million
OSCE	Organisation for Security and Cooperation in Europe
SCO	Swiss Cooperation Office South Caucasus
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SMEs	Small and medium-sized enterprises
UNHCR	United Nations High Commissioner for Refugees
USD	United states dollar

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# Executive Summary

The three countries of the South Caucasus, and former members of the Soviet Union, are in the midst of a challenging transition period taking place in a region marked by conflicts that are hampering prosperity and stability. The transformation to democratic systems and market economies in the Republics of Armenia, Azerbaijan and Georgia requires further reforms, and authorities and societies that are open for change.

All three countries have enjoyed high growth rates in the past decade which have, however, substantially slowed down due to the severe financial and economic crises after 2008. The economic growth in Armenia and Georgia has so far not benefited the general population. Although progress towards democracy and civil rights has been made, none of the three countries is considered by international rankings as fully meeting democratic standards.

Swiss cooperation with the South Caucasus countries dates back to the devastating earthquake in 1988 in the North of Armenia. Since then, Switzerland has progressively intensified cooperation with these countries. In particular, the complementarities between technical and financial long-term assistance on the one hand and humanitarian aid and peace-building measures on the other have proven to be an asset of Switzerland's support to the South Caucasus region.

Building on the experiences of past years, the Swiss Agency for Development and Cooperation (SDC) and the Directorate of Political Affairs (DPA) of the Federal Department of Foreign Affairs (FDFA), together with the State Secretariat for Economic Affairs (SECO) of the Federal Department of Economic Affairs, Education and Research (EAER), have developed a new strategy for the South Caucasus which also reflects Switzerland's broader initiatives in the region in terms of mediation and good offices. Three **priority domains** have been defined to which the mentioned Swiss government entities are contributing their core competences, thereby further enhancing the coherence and efficiency of Switzerland's support for sustainable development in the region.

The largest domain in terms of funding is **Economic Development and Employment**. Building on the previous Swiss Cooperation Strategy South Caucasus 2008–2012, assistance will focus on market development for agricultural value chains with a stronger emphasis on enhancing vocational skills, improving the framework conditions for the financial and private sectors, and providing livelihood support to vulnerable population groups. Second, a new domain on **Governance and Public Services** has been defined which reflects the role of sub-national authorities in fostering regional development (incl. disaster management) and takes into account the transition agenda for delegating more competences to lower tiers of government, developing more democratic processes, and creating a more efficient and accountable state. Third, a new **Human Security and Protection** domain encompasses support to conflict transformation processes coupled with assistance to cover the basic humanitarian needs of vulnerable population groups which can be increased in case of conflict resurgence or a major natural disaster. Switzerland will focus its support on protection, confidence and peace building through mediation, facilitation and political dialogue.

While pursuing an overall regional development goal, Switzerland will mainly implement its programme at the national level. It will continue working with a range of partners, namely with authorities at all state levels, civil society organisations, the private sector, and multilateral organisations. The official development assistance offered by Switzerland will be in line with the priorities of the three national governments and delivered through aid modalities which can be adapted in case of conflict resurgence or a major natural disaster.

The total financial resources allocated for the Cooperation Strategy South Caucasus 2013–2016 will be around Swiss franc (CHF) 111 million.



# 1. Context

For the last two decades the three South Caucasus countries have been going through a difficult transformation process which has caused political and social disruption, governance deficits, secession and conflicts in different regions. Armenia and Georgia have not yet fully regained their former economic power. The transition from the Soviet system to pluralistic democratic societies and functioning market economies is an ongoing, challenging process.

The South Caucasus is situated at the meeting point of the Russian Federation, Iran, Turkey, Europe and Central Asia. The oil and gas reserves in the Caspian Sea and Central Asia and the pipelines to Europe through the South Caucasus East-West energy corridor emphasise the geopolitical importance of the region.

The South Caucasus has experienced severe territorial disputes, namely with regard to Nagorno Karabakh, Abkhazia and South Ossetia/Tskinvali Region. As a consequence of these conflicts, today there are still around 1.2 million internally displaced persons (IDPs) and refugees in the three countries. Despite international mediation, the conflicts remain largely unresolved and continue to hamper regional economic development and political stability.

Armenia remains quite isolated mainly because its borders with Azerbaijan and Turkey are closed. The country has friendly relations with Iran and continues to depend economically and politically on the Russian Federation. Azerbaijan pursues a multi-vector foreign policy. Georgia is striving towards Euro-Atlantic integration. Azerbaijan, Georgia and Turkey are actively developing economic cooperation.

Due to regulatory reforms, an improved business environment and higher exports of commodities, Armenia's economy is slowly recovering. However, poverty and unemployment remain high, particularly in rural areas, and have further increased over the last few years. Remittances from working migrants and the Armenian diaspora play an important role for family income support and investments in the country. Subsistence agriculture remains the major employment sector, accounting for 45% of the working population. Market liberalisation has placed large constraints on the once heavily subsidised agricultural sector, and colluding interests pose threats to fair competition. The political climate remains difficult: The international non governmental organisation Freedom House rates Armenia as 'partly free'



and its media as 'not free'. The parliamentary elections in May 2012 were characterised by a competitive, vibrant and largely peaceful campaign.

Azerbaijan mainly derives its revenues from oil and gas exports. Its considerable economic growth in the mid-2000s slowed down after 2006, partially due to reduced oil production. This reflects the high dependence of Azerbaijan's economy on natural resources. Pressure to diversify its economy is increasing. The non-oil sector, in particular construction, telecommunications and banking services, is steadily growing, however it is mainly supported by oil-financed, unsustainable government spending. The agricultural sector employs 40% of the population but contributes only 5.2% to the gross domestic product (GDP). Azerbaijan was declared as the world's top regulatory reformer in the World Bank's 2009 Doing Business Report, but competition is still hampered. While Azerbaijan is compliant with the Extractive Industries Transparency Initiative (EITI) and has introduced some formal anti-corruption measures, it continues to suffer from high perceived levels of corruption. The general Azerbaijani population is benefiting to some degree from the large revenues derived from natural resources. This positive development is reflected in the country's decreasing poverty rate, from 43.7% in 2003 to 7.6% in 2011. IDPs and refugees constitute the poorest and most vulnerable segment of the population. The human rights situation in Azerbaijan is viewed critically and the country has consistently been ranked as "non-free" by Freedom House since 2003.



In Georgia, the 'Rose Revolution' in 2003 ended years of stagnation and corruption through a series of sweeping reforms and institutional rebuilding. Noticeable progress has been made in respecting and applying democratic standards, and the Georgian government is showing a clear commitment towards Europe. Yet, in 2012 Freedom House qualified Georgia as only 'partly free'. The lack of independence of the judiciary remains a major concern. The armed hostilities with the Russian Federation in 2008 and the economic crisis at that time pushed the country into a deep recession. However, in the past few years the Georgian economy has slowly recovered with a growth rate of above 5%. Major reforms are being carried out following a neo-liberal approach, including in social services. Agriculture remains one of the sectors with the biggest growth potential, employing almost half of the total working population. Rural poverty will remain a significant challenge in Georgia in the coming years. Income disparity is widening, and the country has the highest Gini index for the region. Although the living conditions of IDPs are steadily improving, in many cases they still cannot fully exercise their social and economic rights and are suffering from a lack of employment opportunities. IDPs still belong to the most vulnerable segment of the Georgian population. The parliamentary elections in October 2012 marked the most democratic transfer of power in Georgia's post-Soviet history and led to a cohabita-

tion between the president and the prime minister. The new coalition government has declared its intention to focus on rural development and improve economic relations with the Russian Federation, as a key market.

In all three countries gender inequality in the areas of reproductive health, empowerment and participation in the labour market have led to missed opportunities for economic growth. The national governments are also well aware of the need to decentralise responsibilities and tasks to sub-national government entities. Local governance reforms rank high on the agendas of both Armenia and Georgia, but implementation is still lagging. Strengthening the municipalities is not a defined priority in Azerbaijan.

The variety of ecological zones in the South Caucasus, strong seismic activities and climate change make the region prone to natural disasters. The only slow shift of authorities away from a response focus to a more integrated disaster management system is prolonging the high vulnerability of the population.

## Transition Priorities

The Cooperation Strategy South Caucasus 2013–2016 is aligned with the reform priorities of the respective governments to help them address specific transition gaps.

In its Agricultural Sustainable Development Strategy 2010–2020, Armenia stresses the need for increased efficiency and productivity. Autonomy of local government is embedded in the national legislation of Armenia, which is committed to democratisation and the principles of the European Charter of Local Self-Government. However, in reality Armenia remains a centralised country and the resources allocated to local governments do not allow them to act independently and fulfil the functions delegated to them. A National Disaster Risk Reduction (DRR) Strategy was developed in 2012 in which the Armenian government made strengthening the decentralised rescue system according to international standards a priority.



Azerbaijan's State Programme on Poverty Reduction and Sustainable Development 2008–2015 emphasises the importance of sustainable economic development, in particular through maintaining macroeconomic stability and ensuring balanced development in the non-oil sector. Priorities include creating enabling conditions for the non-oil sector, promoting competition and facilitating cross-border trade and reforming the financial sector. Another focal point will be on continuing institutional reforms and good governance, in particular in the public sector.

In Georgia, the government approved a new Strategy of Agricultural Development 2012–2022 and decided to allocate substantial financial resources to the sector with an emphasis on loans to small and medium-sized farmers for the purchase of agricultural equipment, inputs and storage facilities. Vocational training for farmers and extension/advisory service providers are part of an action plan to implement the Strategy of Agricultural Development. During the last few years, reforms have been carried out to strengthen local governance, which is considered a strategic priority of the transition to a democratic society. In 2011, an action plan for implementing the State Strategy for Regional Development of Georgia 2010–2017 was developed and endorsed. Several key national policy documents integrate DRR and environment as cross-cutting topics. Georgia's revised IDP Action Plan 2012–2014 focuses on the socio-economic integration of IDPs, the durable improvement of their living conditions, and raising awareness of their human rights.

Since the ratification of the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Armenia, Azerbaijan and Georgia have made some progress in improving their gender-related legal frameworks. Actual implementation of policies to foster gender equality, however, remains a major challenge, also because of prevailing traditions. The national action plans of both Armenia and Georgia place emphasis on increased representation of women in politics and the public administration as well as on their enhanced economic participation. A focal point of Azerbaijan's National Plan of Action on Family and Women's Issues is welfare issues.

The European Union (EU) and the World Bank are the largest multilateral donors to the South Caucasus. With its Eastern Partnership Programme, the EU is pursuing a regional approach, offering similar opportunities to all three states. Other international organisations such as the Organisation for Security and Cooperation in Europe (OSCE) and the Council of Europe (CoE) are also committed to the region. The USA is continuing to support Georgia. As an upper middle-income country, Azerbaijan is receiving limited financial aid, rather seeking technical know-how and institutional partnerships. Humanitarian donors are progressively withdrawing from the South Caucasus region.



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

The South Caucasus, with its important geopolitical location at the crossroads of Europe and Asia, remains a fragile region in need of attention. Switzerland's engagement in the South Caucasus is reflected in the good offices provided to support conflict transformation and peace efforts. Switzerland has protecting power mandates to safeguard Russian interests in Georgia and vice versa. There is significant potential for increased economic cooperation between Switzerland and the three countries, in particular in the areas of agriculture, machinery, precious metals, financial services, energy, and tourism. Azerbaijan is part of the Swiss constituency in the Bretton Woods Institutions (World Bank and International Monetary Fund) and in the Global Environment Facility.

Swiss assistance to the South Caucasus dates back to the devastating earthquake in 1988 in the north of Armenia. A regional Swiss Cooperation Office South Caucasus (SCO) representing the SDC and SECO was established in Tbilisi in 1999. The SDC was one of the first development partners to invest in the area of rural economic development and is well known for its tailor-made assistance to vulnerable conflict- and natural-disaster-affected people in Georgia and Armenia. SECO is recognised for its assistance to non-oil sector development in Azerbai-

jan and for assisting the country manage revenues in a more transparent and accountable manner. The relevance of Swiss cooperation has been valued by other bilateral donors who have joined the SDC's programme via a delegated cooperation agreement or by sharing office premises.

The expertise Switzerland is offering is still in demand and can meaningfully contribute to the transition objectives of the three countries in the coming years, notably in the areas of enhancing market economics and democracy. The Cooperation Strategy South Caucasus 2013–2016 reflects one of the four priorities of the Swiss Foreign Policy Strategy 2012–2016 (to contribute to international stability) and one pillar of the Swiss Foreign Economic Strategy (to contribute to economic development of partner countries). The three domains defined in the Cooperation Strategy are fully in line with the Federal Council's Dispatch to Parliament on International Cooperation 2013–2016 and the Dispatch to Parliament on the Continuation of Measures relating to Civilian Peace Building and the Promotion of Human Rights 2012–2016. As the Cooperation Strategy coincides with Switzerland's chairmanship of the OSCE in 2014, synergies between the Swiss cooperation programme and OSCE initiatives in the South Caucasus will be sought.



# 3. Past Achievements and Experiences

The programme of the SDC and SECO within the Swiss Cooperation Strategy South Caucasus 2008–2012, with a total budget of roughly CHF 90 million over five years, was structured on the following three domains: Recovery and Reconstruction, Economic Development and Employment, and Macroeconomic Policy Support. Although not part of the former Cooperation Strategy, the good offices provided by the DPA during that period are also briefly presented hereafter.

## 3.1. Recovery and Reconstruction

Through the provision of tailor-made housing solutions, the living conditions of over 1,800 vulnerable conflict-affected people in Georgia and Armenia have been noticeably improved. Newly created income opportunities and repaired small community infrastructure in selected villages in the break-away region of Abkhazia and in Samegrelo have also contributed to the socio-economic integration and enhanced well-being of vulnerable people in Georgia. Special emphasis was placed on policy dialogue that facilitated the development of the IDP Action Plan 2012–2014 in Georgia and the draft law on the improvement of the living conditions of vulnerable population groups in Armenia.

Experience has shown that in areas divided by the lines of confrontation, the vulnerability of the population is higher, and the combination of housing and livelihood support and repairs to community infrastructure is vital for achieving dignified living conditions, self-reliance and the socio-economic integration of people affected by conflict and natural disasters. By meeting the annual global appeals of the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC), Switzerland has contributed to the improved protection of the conflict-affected populations in Armenia, Azerbaijan and Georgia. During the war between Georgia and the Russian Federation in August 2008 additional emergency response was made available.

In Armenia, a country-wide decentralised rescue system has been built up and 2,400 fire-fighters/rescuers and volunteers as well as 140 medical personnel are now available to provide better basic rescue services in case of an emergency. The National Crisis Management Centre under the Ministry of Emergency Situation is able to provide a more efficient response.



In Georgia, six municipalities have improved their disaster-management capacities and can respond more adequately to local disasters. Through a wide stakeholder inventory and a series of structured roundtables on DRR and related policy issues mainly with the Ministry of Internal Affairs and the Ministry of Environment and Protection, Switzerland has contributed to an increased awareness of DRR and better coordination in this area in Georgia.

The combination of local- and national-level assistance focusing on preparedness and prevention/mitigation is crucial for supporting the shift towards a more integrated disaster management system in Armenia and Georgia.







### 3.2. Economic Development and Employment

The past support of Switzerland to rural economic development in the South Caucasus consisted of focused assistance, applying a market development approach to livestock and horticulture value chains. Over the past few years, 148'000 people have directly benefitted in selected regions of Armenia, Azerbaijan and Georgia, and up to 500 new jobs have been created thanks to the support provided by Switzerland. Better breeding practices have been promoted and connections between farmers and intermediaries improved so that, for instance, the transportation of raw milk to collection points and dairies works better now. Selected cheese storage areas have been equipped and the acquisition of agricultural implements facilitated through targeted co-investments. As a result of such kind of assistance, the production of meat and milk has improved and related products could be sold on domestic markets, leading to an increase in incomes of targeted farmers of 20% over the past four years. Switzerland has also managed to stimulate local public-private partnerships in Armenia and Georgia where milk processing companies and dairies have committed to regularly purchasing milk from smallholder farmers and providing them with relevant extension services and equipment, while the farmers have agreed to reliable deliveries and quantities of milk. In selected horticulture value chains (fig, persimmon, pomegranate, strawberry), thanks

to Swiss support, the first promising business contacts between market actors have been facilitated, new services have become available, and farmers have been able to increase their production due to newly adopted farming and management practices. In Georgia, Switzerland has been able to redirect government attention to the importance of inclusive agricultural development. Thus, agriculture has been brought back on the reform agenda, and other bilateral donors decided to join Switzerland in supporting the agricultural sector in Georgia through joint projects. DRR has proven to be a very useful complement to market development assistance as natural disasters affect farmers first. Sub-national governments have been supported in conducting disaster risk assessments and awareness raising, and in improving small infrastructure, pasture management, cattle register and disease control. There is also evidence that women in targeted regions have been able to improve their social and economic status thanks to strengthened market systems, allowing more equal access and control over resources.

Both the Armenian and the Georgian governments have put agriculture at the top of their reform agendas. This policy choice provides a good basis for continued cooperation with government counterparts. Experience has shown that in addition to working with private actors, it is important to strengthen regional and municipal governments in fostering local economic development and providing extension services in areas such as artificial insemination and disease control.

Swiss assistance in Azerbaijan aims to create a conducive and risk-conscious business environment that will lead to the improvement and diversification of the country's income base. Important reforms related to business-registration processes, permits and inspections have been continued. The National Corporate Governance Code has been adopted and 32 companies and banks have improved their financial performance and attracted more than United States dollar (USD) 132 million in external investment. Furthermore, the successful implementation of one-stop-shop business registration and the introduction of online business registration have resulted in USD 23 million savings per annum in administrative fees and procedures for the private sector in Azerbaijan. As a result of technical assistance provided to AzerPost, the volume of automated financial transactions has substantially increased from Azerbaijan manat (AZN) 72 million in 2005 to AZN 386

million in 2010. Support has been made available to the preparation of an Action Plan for Consumer Protection and Financial Literacy and the establishment of a consumer protection unit by the Central Bank. Finally, through infrastructure initiatives supported by Switzerland, the water supply in Ganja and Sheki has been improved, so that 90% of the population in those cities now has access to potable water. Experience has shown that it is vital to enhance the skills of entrepreneurs and increase public awareness of new policies related to the business environment and corporate governance issues.

### 3.3. Macroeconomic Policy Support

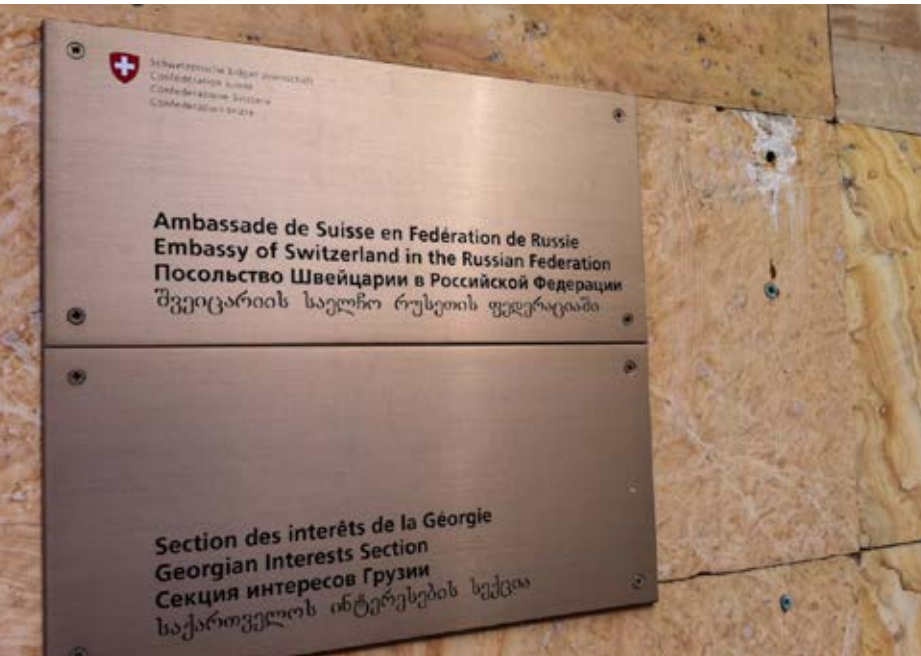
The objective of Swiss macroeconomic policy support was to improve transparency, efficiency and the sustainability of fiscal processes and macroeconomic policies in Azerbaijan. A long-run technical assistance programme to the Central Bank of Azerbaijan resulted in the setting-up of a Research Department and a Strategic Management Department and facilitated the formulation of a State Programme on Capital Market Development for 2011–2020. Furthermore, the balance of payments statistics have been improved and are now ready for publication. The development of financial programming tools in the Ministry of Economic Development, Ministry of Finance and the Central Bank of Azerbaijan has enhanced national capacities to conduct macroeconomic analyses and forecasts, which contributed to improved budget formulation in recent years. The Ministry of Economic Development has adopted financial programming rapidly as the basis for budgeting and medium-term framework. As a result, in 2009 and 2010, budgets were conservative and sound quarterly monitoring information could be provided to decision-makers. The Ministry of Finance has also developed a financial programming model and uses it regularly to prepare financial outlooks on the State Oil Fund. Finally, an initiative has been launched to enhance the public financial management practices of the Chamber of Accounts through the provision of support to the reform of the institutional and legal frameworks and through capacity-building activities.



Experience has shown that activities in this domain contribute to the sustainable economic development of a country through knowledge transfer on crucial macroeconomic instruments and support for important institutional reforms. Switzerland has established a good basis of cooperation with the authorities mentioned and is recognised as a valuable partner on these issues. It will therefore continue its engagement, building on the current activities.







### 3.4. Swiss Mediation and Good Offices

For years, several initiatives promoting dialogue and confidence building measures were supported by the DPA in the wider region, including in the North Caucasus.

Since 2007, Switzerland has been engaged in mediation efforts to facilitate a rapprochement between Armenia and Turkey which resulted in the signing of the so-called Zurich protocols on the normalisation of relations in October 2009. Although the parliaments of Armenia and Turkey have not yet ratified the protocols, Switzerland continues to support efforts for Armenian-Turkish reconciliation. Switzerland represents Georgia's interests in the Russian Federation and vice versa since these two countries discontinued diplomatic relations due to the war in 2008. In 2011, Swiss mediation led to an agreement between Georgia and the Russian Federation allowing the latter to also join the World Trade Organisation (WTO).

In a multilateral context, the former Representative of the UN Secretary General on the human rights of IDPs, Walter Kälin, contributed to the Georgian IDP Action Plan 2012–2014 on housing conditions for IDPs. The Swiss diplomat, Heidi Tagliavini, headed the United Nations Observer Mission in Georgia (UNOMIG) and, mandated by the EU, investigated the circumstances of the 2008 Georgian-Russian war. Switzerland also supports the Geneva Talks which it considers to be an indispensable multilateral forum for the discussion of a sustainable peace settlement in Georgia.

## 4. Implications for the Future Programme

Switzerland will continue to assist the three countries in addressing remaining transition gaps in areas where Switzerland can make a meaningful contribution to economic and social development. The complementarities of technical and financial long-term assistance, humanitarian aid and peace-building measures have proven to be an asset of Switzerland's support to the South Caucasus region. The Swiss Cooperation Strategy South Caucasus 2013–2016 very much builds on this advantage and defines three **priority domains** to which several government entities contribute each with their core competences, thereby further enhancing the coherence and effectiveness of Swiss assistance.

A high percentage of the rural population still has only limited opportunities to enjoy reliable incomes. Further reforms and investments are needed for small and medium-sized enterprises (SMEs) and small and medium-sized farms to increase production and access to markets. Better vocational education and the provision of financial services are required to improve farming techniques and skills and to leverage the results achieved so far. Switzerland will therefore continue assisting market development in agriculture under the domain **Economic Development and Employment** in all three countries, also with a view to improving the living conditions and socio-economic integration of vulnerable conflict- and natural-disaster-affected people. In Azerbaijan, the economy and the income base of the population still need to be further diversified. Switzerland will maintain its focus on improving the business environment and fostering a stronger financial sector. In addition, it will provide support for enhancing entrepreneurial skills.

A new domain on **Governance and Public Services** has been defined taking into account the transition agenda for delegating more competences to sub-national authorities, introducing more democratic processes, and creating a more efficient and accountable state. Swiss assistance in Armenia and Georgia will primarily focus on developing the capacities of local governments in planning, budgeting, managing and/or delivering services that are crucial for the economic development of their territories and for comprehensive disaster management. Together with other donors Switzerland will closely monitor the political context related to public sector reform and decentralisation in these two countries and provide assistance where feasible. To promote high-quality services in public utilities in Azerbaijan

(water supply in particular), Switzerland will provide assistance to continue decentralisation and increase the management capacities of such utilities in addition to its contributions to the construction of physical infrastructure. At the national level, Swiss support will focus on strengthening governance in public financial management and economic policies.

The conflicts in and around the South Caucasus region make it vulnerable and volatile. They are preventing the three countries from fully developing their social, human and economic potentials and bear the risk of further destabilisation. In recognition of this situation, and building on previous experiences, Switzerland will increase efforts in the field of conflict transformation and create a **Human Security and Protection** domain as part of this strategy. The concept of human security focuses on the safety of individuals and their protection against political violence, war and acts of arbitrary violence. It is based on the premise that peace policy, human rights policy and humanitarian policy are closely interlinked. Under the new domain, high-level diplomatic initiatives will be coupled with local level peace-building actions. Assistance in addressing basic humanitarian needs and the protection of vulnerable population groups in selected areas will be continued and can be further increased in the event of conflict resurgence or a major natural disaster.

The Swiss Cooperation Strategy South Caucasus 2013–2016 is therefore a coherent and mutually reinforcing combination of continued support that has shown positive results in the past but needs more time to achieve full impact and new initiatives on state and peace building. Taking into account the slow but steady improvement of the situation of vulnerable and conflict-affected population groups, Swiss Humanitarian Aid plans to gradually decrease its funding over the coming years and phase out by the end of 2016.

# 5. Strategic Orientations and Priorities for 2013–2016

## 5.1. Overall Aim

The long-term development objective of Swiss cooperation with the South Caucasus has been set as follows: Switzerland contributes to a peaceful transition to democracy and inclusive economic development in the South Caucasus region.

This overall aim translates into the following three domains:

## 5.2. Domain “Economic Development and Employment”

The goal for this domain has been defined as follows: Enhanced economic development and social cohesion in the South Caucasus through inclusive growth.

After the collapse of the Soviet Union, a vast majority of the population previously working in state enterprises lost their jobs and resorted to subsistence agriculture. The transformation of the agricultural sector in the three countries is still lagging behind. However, agriculture has high potential, which is also reflected by the fact that all three governments have set modernisation of the sector high on their agendas. The Swiss programme will build on those commitments.

Switzerland aims to increase the economic and social assets of rural/agricultural SMEs, smallholder farmers and people affected by conflict and natural disasters by improving their technical and business skills and promoting their effective integration into markets. Switzerland will continue supporting the creation of sustainable business partnerships between farmers and input/service providers as well as other market actors in selected agricultural value chains. Swiss-supported projects will continue pursuing a market development approach to address systemic constraints in the livestock and horticulture sub-sectors, always with a view to improving the income of both men and women. Through strategic alliances with partner organisations and commercial banks, rural finance instruments are to be promoted to ease access to affordable loans for agribusiness and thereby accelerate the overall performance of the sector. Switzerland will also start supporting efforts to develop opportunities for enhanced vocational skills for farmers through institutional strengthening of agricultural training centres. Finally, Switzerland will contribute to enhancing food security in the region.

Swiss assistance on the ground will be coupled with a well-directed policy dialogue led by SCO to advocate inclusive state policies and programmes pertaining to regional development and agriculture. The rural economic development projects in Azerbaijan will gradually be replaced by technical partnerships, which might take the form of twinning projects between Swiss and Azerbaijani institutions to foster know-how transfer in agriculture.

In order to strengthen the socio-economic integration and further improve the living conditions of vulnerable conflict- and natural-disaster-affected people in Georgia, Switzerland will continue to support various tailor-made durable housing solutions and the rehabilitation of small-scale community infrastructure (e.g. kindergartens, schools) through community mobilisation efforts. It will contribute to improving livelihoods by supporting new income-earning opportunities through the distribution of self-reliance grants and SME grants for targeted people.





In Azerbaijan, Switzerland will continue developing the entrepreneurial and business skills of SMEs, thereby enhancing their managerial and financial performance. Framework conditions for the private and financial sectors will be improved, helping the country to diversify its economy and promote the development of the non-oil private sector. The focus will be on further improving the business environment and easing access to finance. Particular attention will be given to further reducing regulatory barriers for business entry and SME operations such as permits, inspections, and tax reforms. Similar assistance may be provided to the agricultural sector, concentrating on regulatory reforms in the areas of licensing and permits for agricultural businesses, thereby supporting rural economic development. Switzerland will also work with the Azerbaijani media to raise their economic and financial literacy in order to be able to report on, and to promote, economic freedoms in the country. To facilitate access to finance and contribute to the overall stability of the financial sector, Switzerland will concentrate efforts in this area on modernising the regulatory framework and market infrastructure, strengthening lending and risk-management practices of financial institutions, and increasing the range of financial products available to households and SMEs. Tailor-made support in the area of corporate governance will be continued. In addition, all three countries are eligible for technical assistance offered through SECO's global and regional initiatives in the area of private sector development, infrastructure financing (such as the Infrastructure Advisory Programme) and financial sector reforms (such as the Financial Reform and Strengthening Initiative FIRST).

### 5.3. Domain "Governance and Public Services"

The goal pursued under this domain is the following: Strengthened democratic processes and accountability and improved quality of selected public services in the South Caucasus.

Armenia and Georgia are showing their readiness to delegate more competences to lower levels of government as part of their reform processes. Switzerland plans to contribute to these endeavours by addressing selected areas with clear links to rural economic development. As a follow-up on actions initiated under the previous Swiss Cooperation Strategy South Caucasus 2008–2012 and to com-



plement value chain support under the first domain, Switzerland will assist sub-national governments in the better performance of their functions related to sustainable disaster management, territorial administration, infrastructure, pasture management, and in transmitting reliable information to farmers on legal and regulatory issues (e.g. food safety). Even within the existing legal and institutional frameworks, efficiency of services provided at municipal level can be improved and substantially contribute to social and economic development. Municipalities in regions where Switzerland is already active will be encouraged to enhance peer cooperation and to jointly communicate their needs towards the sub-national and national state levels. In cooperation with other donors engaged in the governance sector, Switzerland will continue promoting relevant policy issues, namely effective decentralisation, public-private development partnerships and the inclusion and implementation of comprehensive disaster management at all state levels. It will therefore be important to work on incentives for the central government to delegate tasks and responsibilities to lower levels of government. Switzerland will continue to support the decentralisation of public water utilities in Azerbaijan and assist them in improving their financial and operational performance. Switzerland will also carry on its support to the physical construction and renovation of utility infrastructure to ensure high quality services and lay the physical foundations for increased economic opportunities in the regions.



At the national level, in Azerbaijan, special attention will be given to governance in public financial management and economic policies, which are essential for enabling conditions for sustainable economic development. The accountability and transparency of the state can also be considered assets for attracting foreign direct investments, as part of the framework conditions for the private sector. Switzerland will contribute to improve the public sector's capacity to implement sound economic policies and manage public resources in a transparent and accountable manner. To achieve this, it will continue to enhance capacities in key ministries responsible for macro-economic policy and to strengthen public sector accountability. Switzerland also intends to facilitate and assist reforms in public financial management or in the public administration in general. In addition, all three countries are eligible for support offered through global and regional initiatives in the area of public financial management (such as the Public Expenditure Management Peer Assisted Learning Network PEM PAL), taxation, natural resource management (such as EITI), and debt management.

In the field of democracy, rule of law and human rights, the Human Security Division (HSD) of the DPA will initiate and support activities to increase inclusive political participation, strengthen accountability and transparency of the respective state institutions, and ensure respect for international human rights standards. Support provided by Switzerland will, among others, focus on election support, gender equality, freedom of expression and freedom of assembly, the protection of minorities, and support for human rights defenders. Cooperation with government structures, ombudspersons, and partnerships with civil society organisations are all envisaged. Capacity building in the local context and efforts at the international level will be complementary. Young diplomats and promising young leaders in the three countries will be given the opportunity to strengthen their know-how and skills in the area of international relations, human rights, and peace building. The programme in this domain will also take advantage of the Swiss chairmanship of the OSCE in 2014 to combine efforts and to share experiences.

#### **5.4. Domain "Human Security and Protection"**

The goal for this domain has been defined as follows: Enhanced human security and protection of the population in the South Caucasus, in particular of vulnerable conflict affected persons.

Switzerland will continue offering its good offices to relevant stakeholders in Armenia, Azerbaijan and Georgia to promote conflict transformation. Selected high-level mediation initiatives and policy dialogue focusing on the political resolution of the conflicts will be complemented with support to, and facilitation of, new local peace building activities and dialogue to rebuild relationships between divided societies.



The HSD will make available its expertise in the areas of mediation, facilitation, political dialogue and dealing with the past. According to its national action plan for the implementation of the United Nations Security Council Resolution 1325 on Women, Peace and Security, Switzerland aims to increase the participation of women in decision-making processes related to peace building, to prevent gender-specific violence and protect the needs and rights of girls and women during and after violent conflicts, and to integrate a gender-sensitive perspective in all peace-building projects and programmes. Switzerland also conducts a humanitarian dialogue in the North Caucasus region and will look for synergies in the wider Caucasus context.

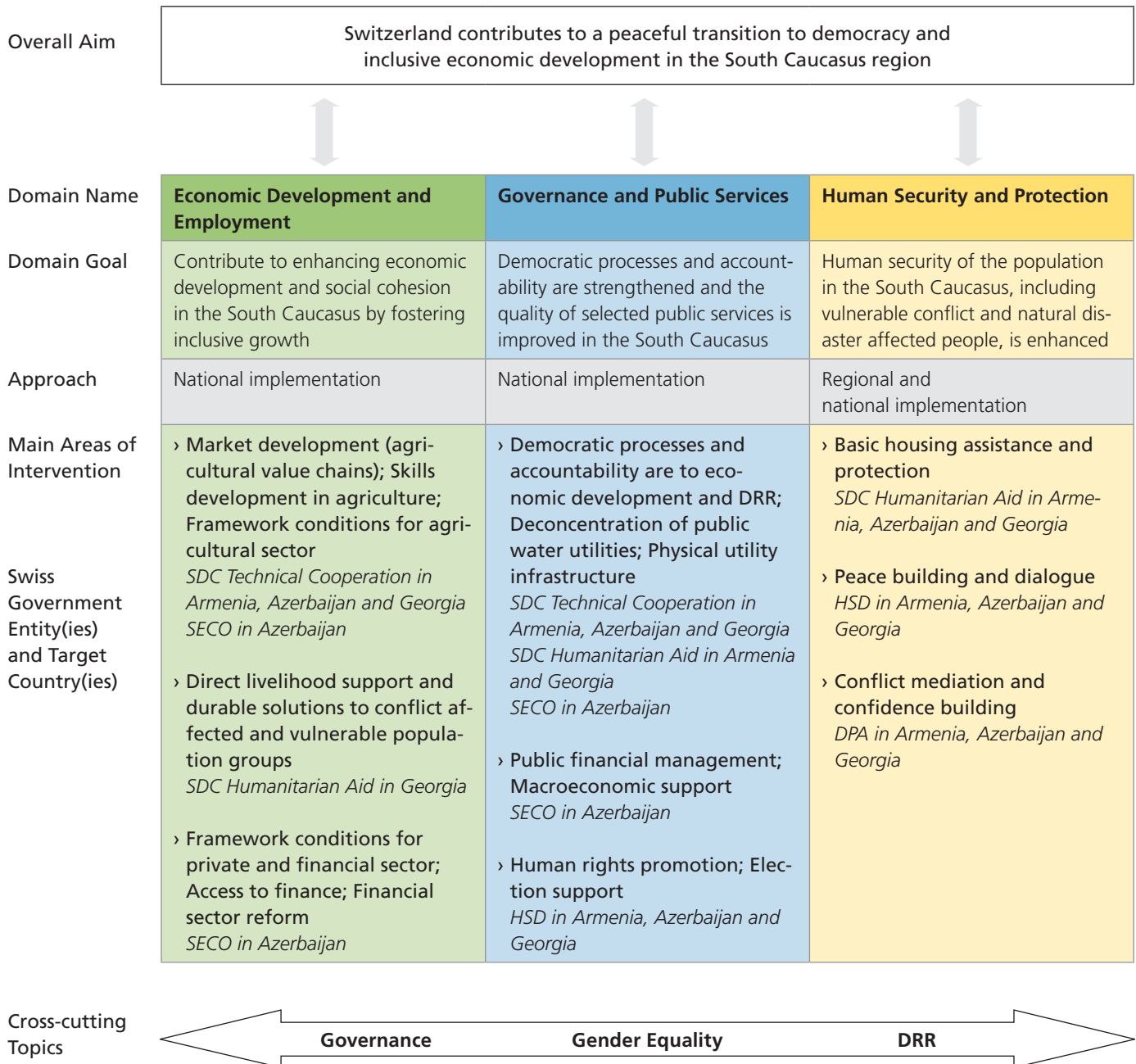
Switzerland will continue addressing the basic humanitarian needs of vulnerable conflict-affected people, and especially of IDPs, in selected regions (e.g. the break-away region of Abkhazia, Shida Kartli) by supporting various durable housing solutions and improved livelihood opportunities. It also aims to enhance the protection of the conflict-affected populations in Armenia, Azerbaijan and Georgia through financial contributions to the annual programmes of the UNHCR and ICRC. Last but not least, Switzerland will pursue a policy dialogue in order to promote the human rights of IDPs and natural disaster victims at different government levels in Georgia.



## 5.5. Non-core Programme

For several years, Switzerland has supported the prevention of human trafficking in the South Caucasus and other countries of Eastern Europe. As labour migration to the neighbouring countries is a key issue in the South Caucasus, efforts may be shifted towards addressing working migrants who leave rural regions. In this case synergies with the rural economic development programme would be sought. In the framework of a regional project, Switzerland will explore ways to foster art and culture as important pillars of an inclusive and vibrant society.

# Swiss Cooperation Strategy South Caucasus 2013–2016 at a Glance



# 6. Programme Implementation and Management

## 6.1. Principles of Cooperation among Swiss Actors

The Swiss Cooperation Strategy South Caucasus 2013–2016 provides the ground for coordination and synergies between the involved Swiss government entities. They all contribute, in accordance with their mandates and core competences, to the same overall regional development goal. All entities actively foster synergies and complementarities between themselves, and meet regularly under the lead of SCO in Tbilisi to take stock of progress made and to discuss programme issues of strategic relevance.

Switzerland will continue to address the South Caucasus as a region whose three countries have a shared recent history, face similar transition challenges and depend on the peaceful transformation of the territorial conflicts dividing them. The regional dimension of the Swiss programme consists primarily in the three overarching priority domains, the similarity of approaches, and the thematic expertise/networks for exchange of experiences across countries. The implementation of the different projects, however, has to be adapted to the national contexts.

Because of the humanitarian needs and the linkages to confidence-building measures, the presence of Switzerland in Abkhazia is deemed important.

## 6.2. Aid Modalities and Partners

The Swiss programme will be implemented in line with the principles of Aid and Development Effectiveness. Domain programmes will be reinforced by prominent policy dialogue with key government partners. The mutual responsibilities and commitments for achieving the envisaged development outcomes will be stipulated in project agreements with the responsible line ministries or other national authorities. Switzerland will continue working with a range of partners, with many of whom it has developed long-standing and trustful relations: authorities at all state levels, civil society organisations, the private sector, UN organisations, and international finance institutions.



The official assistance of the SDC and SECO is provided in the form of mandates given to international and national non-governmental organisations (NGOs), earmarked contributions to projects of multilateral organisations and other bilateral donors, direct actions, technical experts, and regional and global initiatives. Public-private development partnerships will be promoted.

The SDC and SECO intend to finance longer and bigger projects, to which the governments of the respective countries will be encouraged to contribute with their own funds. If the conditions are favourable, successful pilot experiences will be scaled up to achieve impacts beyond the target areas. Switzerland conducts a coherent and focused policy dialogue with the concerned national governments and actively seeks strategic alliances with like-minded bilateral donors and international organisations with a view to enhancing efficiency in programme implementation and developing synergies.



### **6.3. Cross-cutting Topics**

Switzerland will continue to integrate gender and governance as cross-cutting topics into the programme. Special attention will be given to women, especially in rural areas, for them to share the benefits of growth and be able to use resulting economic opportunities and strengthen their position in society. Often gender and governance issues are strongly interlinked, for instance in terms of female political participation and representation, and can be addressed jointly. Participation of women in dialogue platforms related to conflict transformation will be promoted.

The programme in the domain Governance and Public Services will contribute to increasing transparency and accountability of various tiers of government in delivering selected services. In the domain Economic Development and Employment, special emphasis will be put on efficiency and on fostering transparency in business relationships (e.g. commodity price lists, contract farming, clear rules and regulations) along the selected value chains.

As positive experiences have been made in the past with the mainstreaming of DRR into rural economic development assistance, this topic will be integrated into projects of spatial relevance. This is crucial for addressing risks related to climate change.

### **6.4. Conflict-Sensitive Programme Management**

Given the protracted conflicts and tensions in the region, whenever feasible key aspects of conflict-sensitive programme management will be applied for context analysis and programming. This includes particularly the careful selection of project partners and geographical target areas, transparent and impartial property-verification procedures related to house repairs, and targeting vulnerable and conflict-affected population groups of different ethnicities based on their needs. A “do-no-harm” approach among the Swiss government entities will help mutually align actions and prevent them from negatively interfering with each other.

Switzerland respects humanitarian principles in the planning and implementation of its humanitarian aid interventions.

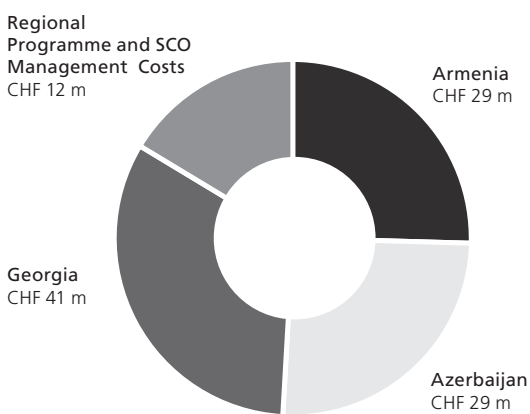
## 6.5. Financial Resources

The official Swiss development assistance for the South Caucasus will amount to around CHF 111 million over the period from 2013 until 2016. Each Swiss government entity is responsible for the financing and execution of its part of the programme.

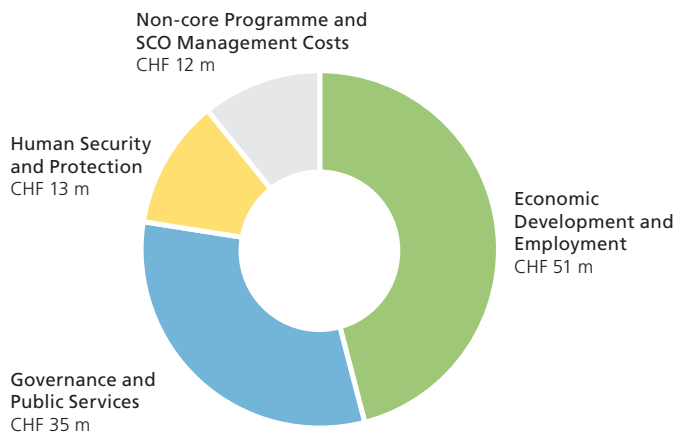
Most of the funds will be allocated to Georgia because it is the poorest country of the South Caucasus region, has large humanitarian needs and a bigger population than Armenia. As an upper middle-income country, Azerbaijan hardly relies on official development aid. Although Azerbaijan will receive almost the same resources as Armenia in absolute figures, it will receive less in relative terms due to its significantly larger population.

The three countries under this strategy also benefit from regional and global initiatives financed by Switzerland. Where these measures cannot be assigned to a specific country, they are not accounted for in the financial projections mentioned below:

Financial Allocation per Country



Financial Allocation per Domain





## 7. Steering and Monitoring



The positive results of the previous Swiss programme show that strengthening the economic and social resilience of target populations through market development support is possible even during a period of severe economic crisis. Political risks related to delayed or revoked reforms, unfair election processes and corruption remain to be closely followed. However, they cannot be seen as a reason for Switzerland not to engage with the South Caucasus region precisely because donor countries are called to support democratic transition.

In close cooperation with its partners, the SCO will ensure the proper monitoring of the Swiss programme to ensure efficient programme implementation. Switzerland remains committed to giving account of achieved results both domestically and towards its partner countries. Monitoring will be based on three domain results frameworks and involve a consistent monitoring cycle with results-oriented reporting that refers to the transition progress in the countries. Switzerland will continue to strengthen its own capacities on results-based management and those of its partners, and it will foster the discussion on good practice through peer exchanges and in thematic networks.

The Swiss programme will be managed by the SCO in Tbilisi and the two subordinated offices in Baku and Yerevan, each of which oversees the respective national programmes. In view of the decided increase in financial resources over the coming years, the staff will be strengthened mainly by three expatriate positions. Additional human resources are available through a number of thematic networks and expert pools within the Swiss administration.

A continuation of the status quo is considered by major international think tanks and agencies to be the most likely future scenario for the conflicts affecting the South Caucasus. For this reason the Swiss Cooperation Strategy South Caucasus 2013–2016 does not foresee a specific alternative scenario for a potential eruption of conflict, but will take into account any significant developments related to the regional conflicts. Should the currently closed regions open up, in particular possible eased access to South Ossetia/Tskinvali region, the prospects for new assistance will be assessed. The Swiss programme with its Humanitarian Aid Team and humanitarian partner organisations on the ground is available and prepared to increase emergency relief activities in case of conflict resurgence or a major natural disaster.

# Annex I Results Framework

<b>Overall Aim</b>		
Switzerland contributes to a peaceful transition to democracy and inclusive economic development in the South Caucasus region		
<b>Domain Goals</b>		
<b>Economic Development and Employment</b> Enhanced economic development and social cohesion in the South Caucasus through inclusive growth	<b>Governance and Public Services</b> Strengthened democratic processes and accountability, and improved quality of selected public services in the South Caucasus	<b>Human Security and Protection</b> Enhanced human security and protection of the population in the South Caucasus, in particular vulnerable conflict-affected persons
<b>Switzerland's Domain Objectives</b>		
<ol style="list-style-type: none"> <li>SMEs, smallholder farmers and vulnerable and conflict-affected population groups have increased their economic and social assets through improved skills, capacities and better use of market opportunities;</li> <li>Framework conditions for private and financial sectors are improved</li> </ol>	<ol style="list-style-type: none"> <li>Improved capacities of national, regional and local government institutions to foster sustainable and inclusive regional and local development;</li> <li>Improved transparency, efficiency and sustainability of public financial management and economic policies in Azerbaijan;</li> <li>Democratic standards increasingly respected and human rights effectively promoted and protected through relevant national mechanisms in all three countries</li> </ol>	<ol style="list-style-type: none"> <li>Basic humanitarian needs of vulnerable conflict affected population groups are addressed and their protection is improved;</li> <li>Relevant stakeholders in the three countries are able to address conflict transformation in a constructive manner</li> </ol>
<b>Total Domain Budget</b>		
CHF 51 million	CHF 35 million	CHF 13 million
<b>Cross-cutting Topics / Approach</b>		
Gender, Governance, Disaster Risk Reduction, Conflict Sensitive Programme Management		
<b>Country Priorities (key policy documents)</b>		
<p><b>Armenia:</b> Sustainable Development Programme 2008–2021; Agricultural Sustainable Development Strategy 2010–2020; National DRR Strategy 2012; Republic of Armenia Gender Policy Strategic Action Plan 2011–2015</p> <p><b>Azerbaijan:</b> State Programme on Poverty Reduction and Sustainable Development 2008–2015; State Programme on Socio-Economic Development of Regions 2009–2013; State Programme on Capital Market Development 2011–2020; Azerbaijan Development Vision 2020</p> <p><b>Georgia:</b> State Strategy for Regional Development of Georgia 2010–2017; Strategy of Agricultural Development of Georgia 2012–2022; IDP Action Plan 2012–2014; Strategy on Occupied Territories 2010; Action Plan for the Implementation of Gender Equality 2011–2013</p>		

The detailed results frameworks per domain are available upon request (see Imprint).

# Annex II Financial Planning

The following tables provide an overview of the planned disbursements and planned new commitments per domain from January 2013 until December 2016, both in absolute numbers and percentage-wise.

## Overview of Planned Disbursements per Domain

Total planned disbursements during 2013–2016 in CHF (incl. disbursements committed before 2013)						
Domain	SDC Technical Cooperation	SDC Humanitarian Aid	SECO	HSD	Total	%
Economic Development and Employment	38'500'000	3'150'000	9'800'000	-	51'450'000	46%
Governance and Public Services	16'000'000	3'750'000	12'800'000	2'000'000	34'550'000	31%
Human Security and Protection	-	8'850'000	-	4'000'000	12'850'000	12%
Non-core Programme and SCO Management Costs	6'770'000	3'600'000	1'870'000	-	12'240'000	11%
<b>Total</b>	<b>61'270'000</b>	<b>19'350'000</b>	<b>24'470'000</b>	<b>6'000'000</b>	<b>111'090'000</b>	<b>100%</b>

## Overview of Planned New Commitments per Domain

Total planned new commitments during 2013–2016 in CHF (incl. planned new commitments that entail disbursements beyond 2016)						
Domain	SDC Technical Cooperation	SDC Humanitarian Aid	SECO	HSD	Total	%
Economic Development and Employment	28'000'000	3'035'000	10'000'000	-	41'035'000	41%
Governance and Public Services	16'000'000	3'602'000	13'000'000	2'000'000	34'602'000	34%
Human Security and Protection	-	8'704'000	-	4'000'000	12'704'000	13%
Non-core Programme and SCO Management Costs	6'770'000	3'500'000	1'870'000	-	12'140'000	12%
<b>Total</b>	<b>50'770'000</b>	<b>18'841'000</b>	<b>24'870'000</b>	<b>6'000'000</b>	<b>100'481'000</b>	<b>100%</b>



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