



The European Union's Neighbourhood Programme

***Assessment of the Agriculture and Rural
Development Sectors in the Eastern
Partnership countries***

The Republic of Azerbaijan



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List of abbreviations

ARD	Agriculture and Rural Development
AZN	Azerbaijani Manat, (1Euro:1.02AZN, September 2012)
AZPROMO	Azerbaijan Export & Investment Promotion Foundation
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
ENPARD	European Neighbourhood Programme Agriculture and Rural Development
ENRD	European Network for Rural Development
EU	European Union
FADN	Farm Accountancy Data Network
GDP	Gross Domestic Product
HACCP	Hazard Analysis and Critical Control Points
IFAD	International Fund for Agricultural Development
MED	Ministry of Economic Development
MoA	Ministry of Agriculture and Food
PIU	Project Implementation Unit
PPP	GDP at purchasing power parity (PPP)
SEDA	Sustainable Economic Development Activity
SDC	Swiss Development Cooperation
SFSE	State Fund for Support to Entrepreneurship
SPREAD	State Programme of Poverty Reduction and Economic Development
TIRSP	Trade and Investment Reform Support Program in Azerbaijan
USAID	United Nations Agency for International Development
WB	World Bank
WTO	World Trade Organization

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1. Introduction

1.1 Context and objective of the sector analyses

Many of the Eastern Partnership (EaP) countries have a rural population, classified as self-employed, relying to some extent for their livelihoods on small, and divided land plots, and communal or state owned pasturelands. These small-holders have very limited resources with little growth potential. The products from these lands are often only for subsistence purposes. The selling of any surpluses is made difficult by limited links to organised markets, and limited access to, or complete lack of, any processing, storing, handling, packing or distribution facilities.

There are donors providing assistance (EU and FAO among them) in addition to the activities of the Governments, but the current global crisis with soaring food prices among other consequences, have demonstrated the vulnerability of the agricultural/rural communities and the need for EaP countries to further enhance the formulation of agriculture policies aimed to support small-scale farmers and farmers' organizations, to support private and public stakeholders in the agricultural sector, to restructure agriculture on sustainable basis, to modernize the agricultural production and to develop rural areas.

A general assessment of the agriculture sector and rural areas is crucial for the development of proper strategies and policies. These studies envisaged under this project will contribute to the assessment of the situation in the sector, will prioritize and target the sub-sectors, the areas of intervention and the beneficiaries, in consultation with the local public and private stakeholders.

The overall scope of the project is in line with the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), an EU initiative built on the EU's best practice experienced in developing agriculture and rural areas. Based on the results of this project, ENPARD programmes and activities will be identified, elaborated and implemented in the interested EaP countries.

1.2 Study Team

This report was conducted by the following team:

- EC/FAO Management Committee
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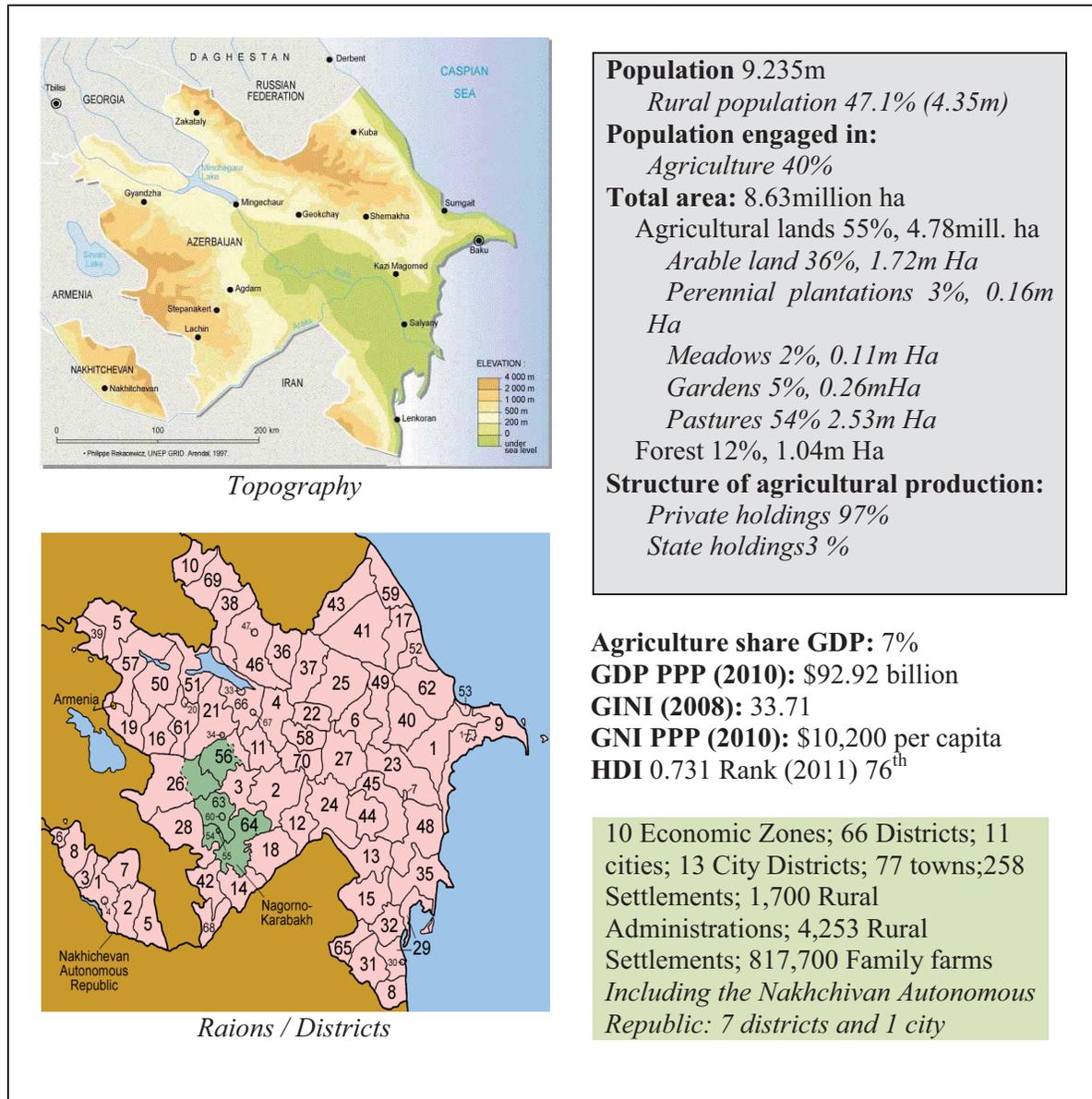
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2. Background and key figures

2.1. General context and economic indicators

The Republic of Azerbaijan has a total area of 86.6 thousand km², situated in the Southern Caucasus. Azerbaijan occupies the south-eastern part of the Caucasus, descending to the Caspian Sea, between Iran and the Russian Federation (Dagestan). Mountains dominate the northern, southern, and western regions of Azerbaijan, covering roughly 43% of the country, and flatlands run throughout the centre of the country, accounting for the other 57% of Azerbaijan's land area. Forests make up roughly 12% of the total land area; an estimated 54.9% of the country land is suitable for agricultural production.

Diagram 1: Topographical and Administrative maps of Azerbaijan



Azerbaijan's population in 2012 was 9.235 million, as compared to 8.5 million in 2006. About 52.9% of the country's citizens reside in urban areas and 47.1% in rural areas. These areas include the exclave of the Naxcivan Autonomous Republic (currently only accessible by air travel as the road linked is closed) and the (occupied) Nagorno-Karabakh Region.

After gaining its independence in 1991, Azerbaijan's economy collapsed. By 1995 GDP had dropped to 37% of the 1989 level. Economic recovery from this nadir was very slow and GDP only returned to its pre-1989 level in 2005. The economy of Azerbaijan shifted to a development stage from 1995. During 1995-2003 GDP increased by 90%, government budget revenues increased more than three times, international reserves by 85 times, and total capital investment amounted to more than \$20 billion. Since then growth has accelerated. During 2004-2009 real GDP increased by 2.8 times, to \$43 billion and in per capita terms by more than 2.2 times, to \$4874.1 at current exchange rates..

Azerbaijan, from 1995, started to implement market oriented reform policies for transition from a planned to a free market economy. After independence it was evident that there was a need to initiate reforms to transform the political and socio-economic system, to form an independent national economy system, based upon a democratic state system, including free market relations. The transition to the new political-economic order has not been smooth. A partial reform model was a principal threat.

Currently, the economy remains in a development stage with oil and gas as the leading the sector of the economy. Construction and small-scale industry are the next most developed sectors in the country. But agriculture and small-scale agricultural industry are in the shadow of the main sectors. According to statistics for 2011, GDP on a PPP basis amounted to \$93,02 billion, an increase of 0.1% in comparison with 2010, with per capita GDP around \$10,200 up from \$9,900 in 2009. Macroeconomic indicators of the country are provided in Table 1:

Table 1: Macroeconomic indicators of Azerbaijan, 2011, USD

Indicators	\$ Billion
GDP	64,19
GDP of non-oil sector	30,98
Total industrial production (works & services)	44,29
Total non-oil industry production	7,31
Total agricultural, forestry and fishery production	5,80
Foreign trade turnover	33,15
Export	24,64
Import	8,51
Income of state budget	14,92
State budget expenses	14,60
State budget surplus	0,32
Household Income	39,27
Income per capita \$	4,337

In 2012, State budget income was \$21,1billion, and expenses \$21,8billion. Receipts from the State Oil Fund were \$12,7billion, which accounted for 60.3% of total budget income. Other budget sources are Ministry of Taxes – 32.3%, State Customs Committee – 7.3% and others – 0.1%. The non-oil sectors accounted for 59.9% of budget income, the remaining 40.1% from the oil and gas sector. Regarding State budget expenses, the structure of expenses of the 2012 budget is provided in table 2:

As seen from Table 2, budget expenses for the agriculture sector amount to about 2% of total expenditure. It is difficult to provide calculation of budget allocations for the development of the rural sector as there is not a specific budget line. Budget allocations for development of the rural sector are provided through various State programmes by infrastructure investments, financial support to business initiatives and so on. For example, during 2005-2010 years through the State Fund for Support of Entrepreneurship (SFSE) under the Ministry of Economic

Development (MED) \$294 million credits to agricultural producers and agro-processing units were provided (see Table 3).

Table 2: Structure of State budget, 2012, in USD

#	Budget lines	USD Billion	%
1	General governmental services	1,54	5.27%
2	Defence	1,77	6.07%
3	Court, juridical powers and procurator services	1,21	4.15%
4	Education	2,02	6.92%
5	Health	0.76	2.61%
6	Social defence and social security	2,28	7.83%
7	Culture, art sport and others	0.32	1.10%
8	Apartment and communal services	0.44	1.51%
9	Agriculture, forestry, fishery, hunting, environment protection	0.61	2.08%
	Of which the agricultural sector	0.58	1.98%
10	Industry, construction and minerals	7,43	25.46%
	Of which state investments	7,40	25.37%
11	Transport and communication	0.11	0.37%
12	Economic activities	0.24	0.82%
13	Unallocated expenses	3,05	10.44%
		29,18B	

Additional support is provided to agricultural producers based on the Presidential decree on “State support to agricultural producers”, 23 January 2007. This includes seed, fertilizer and pedigree cattle, and; on the basis of other relevant decrees and orders, other support was provided to agricultural producers in the country.

There are several types of subsidy provided to agricultural producers:

- Subsidy for farmers dealing with wheat (barley) cultivation – 40 AZN (approximately \$50) per ha;
- Subsidy for farmers dealing with crop production activities for fuel expenses - 40 AZN (approximately \$50) per ha;
- Fertilizers are sold to farmers at 50% discount;
- Wheat seeds are sold to farmers at 50% discount;

In Table 4 information is provided on government subsidies during 2007-2010.

Table 3: Disbursed credits to the Agriculture sector, USD m

Years	Agricultural production	Agro-processing	Total
2005	9.04	16.65	25.69
2006	16.12	32.67	48.79
2007	17.87	30.94	48.81
2008	10.83	36.87	47.70
2009	25.18	28.94	54.12
2010	8.12	62.58	70.70
Total	87.16	208.65	295.81

Table 4: Government subsidies to agricultural producers, USD m

Years	Agricultural production	Agro-processing	Total,
2007	54.1	25.9	80.0
2008	69.0	37.9	106.9
2009	76.7	29.4	106.0
2010	71.2	30.1	101.3
Total	270.9	123.3	394.2

The impact and result of the production subsidies on changing production profiles is evident in the quantum increase of cereal crops against the decline in traditional crops, including cotton and tobacco.

Overall production in volume terms -

Year	Tons	Year	Tons
Cotton		Hazelnuts	
1990	180,000		
2000	38,000	2002	5,000
2010	11,000	2010	26,000
2011	24,000	2011	35,000
2012	14,000		
Maize		Tobacco, raw	
1990	18,000	1990	56,328
2000	100,000	2000	12,750
2010	135,000	2010	3,243
2011	152,000		
2012	160,000		
Wheat		Table Grapes	
1990	880,000	1992	607,000
2000	1,300,000	2000	76,936
2010	1,309,000	2009	129,159
2011	1,641,000		
2012	1,900,000		

After regaining its independence following the fall of the Soviet Union, Azerbaijan began the process of land privatization. In general, privatized agricultural land fell into one of three categories: “*agricultural enterprises*, registered as legal entities, including agro-industrial enterprises, joint ventures, and agricultural cooperatives that employ people; *peasant farms*, a type of individual enterprise where the farmer is directly involved in production; or *household or private farms*, which are very small plots or gardens for personal or household use”.

Privatization and a later land reform led to an increase in production: farm output started to grow in 1998, with the highest growth in 2001 (about 12%). Small farmers contributed significantly to the economic recovery of the agricultural sector, but their small size and lack of mechanization are still problematic issues in achieving high yields. Contributions of household and private farms have been increasing and are substantial relative to the contributions of larger farms/agricultural enterprises. By 2005 land privatization was nearly complete.

In 2010, the per capita gross domestic product (GDP) was \$5,722, a large increase over the 2000 GDP per capita of \$655. Despite the growth of the economy and the agricultural sector, agriculture’s share in GDP has declined. In 1990, agriculture comprised 29% and this fell to 6%

of the \$51.77 billion GDP by 2010. This is largely due to rapid industrial development from 1995 to 2004. Despite its declining role in the national economy, in 2008, about 38.3% of the labour force was employed in the agricultural sector.

The regions, mostly remote areas, are undeveloped in the shadow of rapid development of the capital city Baku and other urban areas. The main reason of this situation is that Baku and other urban areas are enjoying flows of both infrastructure and economic investments that create improvements in standards of living of the population. But, considering that up-to 40% of the population lives in rural areas of the country, the development of rural areas is a top priority for the government of Azerbaijan.

2.2. Agriculture and rural sector

Following agrarian reforms that commenced in 1995, 1.3 million Ha of land have been privatized to approximately 817,700 families. In addition, there are over 620,000 household farms, with an average size of 2.8 Ha (FAO). Agricultural production is undertaken on the farmland distributed to the residents from state farms and collective plots, and backyard / kitchen gardens, .in three main agro-ecological zones:

1. Lowlands, dry/hot, irrigated
2. Uplands-lower precipitation, irrigated
3. Uplands-higher precipitation

The livelihood of the rural population depends on agriculture. Mixed farming is the norm, with similar cropping patterns: wheat and barley are the major crops, grown successively for several years on the same land. Alfalfa, potato, sunflower, maize and watermelon may be introduced into the rotation every 4-5 years. Wheat growing is subsidised, which affects choice of crops and reduces motivation to improve yields.

Income Sources (2008 HBS)

Income Source	Monthly Income (AZN / Capita)		
	Total	Rural HH	Urban HH
Employment	35.9	20.4	50.4
Self employment	26.0	20.7	30.9
Agriculture	17.2	31.7	3.6
Rent & property	1.4	0.9	1.8
Social transfers	17.0	18.5	15.6
Other	11.4	11.4	11.5
TOTAL	108.9	103.7	113.8

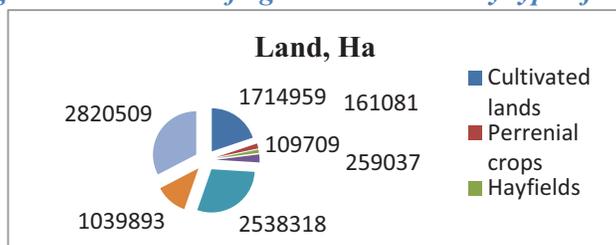
During the Soviet era, the agricultural production system focused on maximizing the output using high-input monocultures of often non-adapted crops. Following land reforms, the former state-owned kolkhoz and sovkhoz farms were disbanded and the land was privatized. Yet, the majority of the newly established small private farmers were little prepared for this role and had difficulties in coping with the drastic change in farming operations. Their experience as employees on large, state-run farms was insufficient for private farming in a market-driven economy resulting in the current state of the agricultural and rural sector.

Apiculture and vegetable growing activities are the primary income sources for the rural population. In some rural areas tourism activities is also an important source of income. Agriculture a traditional economic activity in Azerbaijan. Historically, vine-growing, silk-worm breeding and fruit-growing activities are the most traditional. As most part of the country is mountainous, cattle and sheep breeding is especially important.

Agriculture is a strategic sector for Azerbaijan and a key component of the country's non-oil economy. While the agriculture sector accounts for only 7% of GDP it is a key employer, providing income and employment for about 40% of the total workforce (employed and self employed). Agriculture plays an important role in food security and in improving the socio-economical situation in rural regions.

Regarding the structure of agricultural lands, 1.714.959 Ha are cultivated lands, 161.081 Ha are perennial crops, 109.709 Ha are hayfields, 259.037 Ha are yards, 2.538.318 Ha are pastures, 1.039.893 Ha are forest and 2.820.509 Ha are other lands (see figure 1):

Figure 1: Structure of agricultural lands by type of ownership



Irrigated lands constitute one third (1,433 thousand Ha) of total agricultural lands, but 90-95% of agricultural production is provided by these lands. Approximately 30% of irrigation (556 thousand Ha) is provided by mechanical means. The total length of irrigation channels is 51,755 km from which 2,184 km are primary canals. 8,014 km are secondary channels between farms and 41,577 km tertiary channels inside farms.

Table 5: Agricultural lands by type of ownership (2011, thousand Ha)

	All farm categories	From which in turnover	including		
			State ownership	Municipal ownership	Private ownership
Lands suitable for agricultural activities	4 766.8	4 575.3	1 790.3	1 122.0	1 663.0
arable land	1 842.7	1 821.4	318.2	101.9	1 401.3
hayfields	117.5	108.8	22.1	3.2	83.5
pastures	2 537.7	2 399.4	1 382.6	1 008.4	8.4
perennial crops	227.4	211.1	55.6	5.2	150.3
rested lands	41.5	34.6	11.8	3.3	19.5

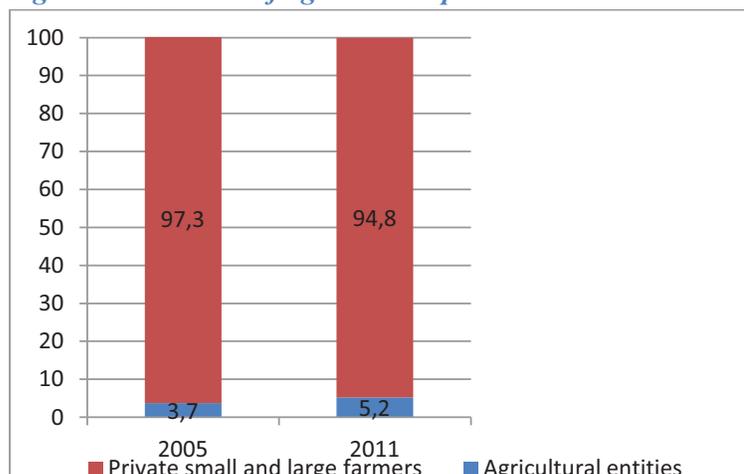
Total agricultural production in the country was \$5801.5 million in 2011, of which \$2999.7 million was from crop production and \$2801.8 from cattle-breeding activities. The breakdown of agricultural production in value terms is scheduled in Table 6:

Table 6: Total agricultural production, million USD

	2005	2007	2008	2009	2010	2011
All farm categories	2365.1	3741.8	4494.7	4878.8	4971.4	5801.5
including						
crop production	1266.9	2213.3	2672.9	2700.0	2563.1	2999.7
livestock	1098.2	1528.5	1821.8	2178.8	2408.3	2801.8
Agricultural entities	88.2	153.3	238.5	292.2	246.9	302.6
including						
crop production	17.8	29.7	52.6	89.7	76.9	105.4
livestock	70.4	123.6	185.9	202.4	170.0	197.2
Private entrepreneurs, small and large farms	2276.9	3588.5	4256.3	4586.7	4724.5	5499.0
crop production	1249.1	2183.6	2620.4	2610.3	2486.2	2894.4
livestock	1027.8	1404.9	1635.9	1976.4	2238.3	2604.6

Most agricultural production is from private farmers, but with an increasing, though still small, share from agri-enterprises in the period 2005-2011.

Figure 2: Structure of agricultural production



Livestock

Cattle breeding, poultry farming, forestry, and fishing are the most developed. Animal husbandry provides foodstuffs in the form of meat, dairy, and poultry, and the agri-industrial sector with wool, fur, skins, down and other materials.

Livestock production dates to ancient times. In all regions of Azerbaijan cattle are very important for meat and milk. They are no longer used as draught animals. Small farmers keep at least one or two cows for subsistence dairy products. Livestock is fully privatized - only an insignificant number of cattle are kept on the 21 state breeding farms.

The production indicators show increases for animal products in 2011 as compared to 2012. Meat production increased considerably-by 4.3% in live weight basis, milk production increased by 5,6%, only egg production decreased significantly - by 14,5%.

The main animal diseases endemic among animals in the country are anthrax, foot-and-mouth disease, leptospirosis, hydrophobia, brucellosis, as well as Newcastle disease in poultry. The State Veterinary Service is the competent authority dealing with state veterinary services in the country and responsible for measures against animal diseases.

The major problems for livestock sector are: i) poor genetic material, ii) unhygienic barn conditions without clean drinking water, iii) inadequate and imbalanced feeding, iv) poor feed storage practices, v) inadequate forage crop production.

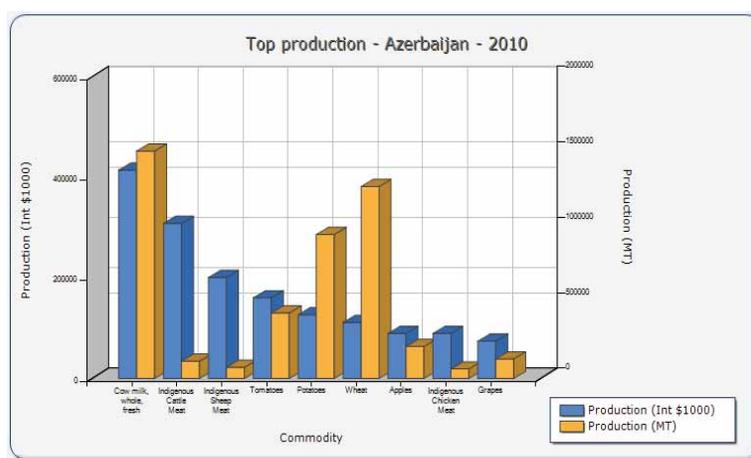
Most pastures are degraded. There is no monitoring and enforcement by the pasture leasing administrations such as the raions, and municipalities, due to a lack of funding and awareness or incentives. Environmental pressures on pastureland are intensified by the declining practice of moving livestock between summer and winter pastures, and increased livestock density, especially in areas close to the villages (i.e. communal winter pastures).

Agriculture Production

Over half of total income from animal husbandry comes from cattle-breeding, which mainly occurs in the Kura-Araz Lowland and in foothill regions. Cattle, sheep, and goats encompass the majority of animal husbandry. Sheep breeding for meat and wool is most prominent in mountainous regions, and poultry farming is becoming increasingly profitable due to its production of meat, eggs, and down.

Animal populations as of 1st January 2009				
1	Bovine	Cattle and buffalo		3,225,591
2	Ovine and Caprine	Sheep and Goats		8,276,177
3.	Equine	Sport / Breeding horses	2,000	116,138
		Horses, mules, donkeys	114,428	
4	Porcine	Pigs		6,905
5.	Poultry			22,352,909

In 2010, total agricultural export was \$400.4 million of which \$166.2 million was from crop production, \$18.2 million from livestock products and \$215.7 million from agro-processing goods. Main exported agricultural products are vegetables, fruits, canned fruits and vegetables and juice. Products are exported to Russia, Ukraine, Belarus and other CIS countries, as well as to some European countries.



FAOSTAT

In value terms the most valuable products are meat (cattle and sheep), milk and tomatoes, followed by potatoes, wheat and apples. The food industry produces a variety of products. As transportation costs are significant for raw materials required for processing, the sugar, vegetable oil, canned fruit and vegetables, butter and cheese, processing industries are developed mainly in the raw material regions. Bread-baking, macaroni and dairy industry enterprises are located in the large cities and densely populated consumption regions. There are more than five milk processing units producing different dairy products. Most output of the

food industry is for local consumption. Meat processing enterprises are located in large cities such as Baku, Gandja and Mingechevir and the Lenkeran-Astara economic region.

Agricultural input use and availability: Use of certified seed and seedlings, inorganic fertilizer and pesticide is problematic mainly due to: i) lack of incentives for yield enhancement (area-based subsidies); ii) technology and poor farm management iv) affordability, and v) accessibility. The availability of subsidies does not provide incentives for the wider use of yield enhancing inputs including certified seed and fertilizers. But for the progressive producers lack of availability is a significant constraint.

Chemical fertilizers are not commonly used in the area. The common reason claimed by the farmers is the high price. However, the current subsidy program includes fertilizer subsidies to encourage fertilizer application to crops: the Government covers 50% of the total cost of fertilizer (200-250 kg/ha, currently up to 50 AZN), but with no link to any productivity measures. Therefore farmers often neglect fertilizer application. There are also issues with the quality of fertilizers (centrally procured) and lack of quality control regulations.

Farmers have no knowledge about the nutrient status of their soils and lack basic climatic and meteorological data. Therefore, agricultural applications are “blind” meaning that the rates and types of fertilizers are chosen irrespective of any criteria such as the soil fertility level and crop/cultivar-specific requirements. Crop productivity is low throughout the area due to various reasons but mainly because of a dire and universal lack of knowledge (technology gap) on agronomic practices.

Water and Irrigation

Water availability is a major problem. In many regions, rainfall is both inadequate and unevenly distributed, as are water resources from the rivers. The total water resources of Azerbaijan are about 39 km³, of which about 29.3 km³ are surface waters and 8.8 km³ are groundwater. As a result of insufficient precipitation and uneven distribution over the year there is a heavy reliance on irrigation. Roughly 33% of agricultural land is irrigated and it is this land that accounts for more than 80% of Azerbaijan’s total agricultural output.

Flooding affects 300 km², and every other year washes out up to 1 million m³ of soil and causes significant damage. Mining operations and other human impacts lead to another 30,000 Ha of land to be unusable for cultivation. In 2010, cereal production fell 33% from 2009 and was 14% below the average annual production between 2005 and 2009, with much of this drop attributed to flooding.

Soil degradation occurs on a large portion of land suitable for agriculture due to erosion, salinity, bogging and chemical pollution. In Azerbaijan, 96% of human-induced degradation is due to agricultural activities. Erosion affects 3.7 million Ha within Azerbaijan, 0.7 million Ha of which are intended for agriculture. Erosion is naturally caused by wind, water, gullies and irrigation, but also through lack of proper land management, poor cultivation practices, over grazing, reduction of forests and vegetation, and other human factors.

Tax and credits

According to the Law on Land Taxes all tax from landowners should be ring fenced in a budget account and used for the improvement of soil fertility. But there is no implementation mechanism for this regulation. Salinity affects 1.2 million Ha, 600,000Ha of which are irrigated lands. These lands can no longer be cultivated because of poor drainage, lack of appropriate practices, and/or inundation of the coastal zone.

Since 2000, the Azerbaijan government, with the support of the World Bank, has launched the Agricultural Development and Credit project that covers all regions of the country. One of the main components of the project is the information component aiming to improve agricultural extension services in all agricultural regions. For this purpose, an Advisory and Information Centre was established by the Agency on Agricultural Credits within the Ministry of Agriculture and ten Regional Advisory Centres in different agricultural regions.

The Agency on Agricultural Credits within the Ministry of Agriculture mainly acts as the implementing agency for different development projects mainly funded by IFAD and the World Bank. For instance, the Rural Investment Project and the Agricultural Development and Credit Project funded by World Bank and the North-East Development Project and the North-West Rural Development Project funded by IFAD. The Agency, through the Implementing Credit Agency, has disbursed more than \$40 million to local landowners and farmers. This credit line has been created under “Agricultural Development and Credit Project” funded by World Bank.

The rural sector in Azerbaijan still faces many problems that are impeding development. The existing situation in rural areas of Azerbaijan could be characterized as following:

- ***Social infrastructure is underdeveloped*** (the quality of education and health services, water and electricity supply are poor, the level of unemployment is high);
- ***Economic infrastructure is underdeveloped*** (road conditions are bad, irrigation and drainage system destroyed or non-existing, access to markets are weak due to remote area or poor roads);
- ***Underdeveloped or non-existing industry*** (mostly agro industry, as the main economic activity of the rural population is agriculture);
- ***Lack of knowledge and skills on new technology*** (due to above mentioned constraints local residents suffer from a lack of information on new technologies to apply to their business activities);
- ***Weak access to markets*** (including input markets, land market);
- ***Weak financial market*** (due to weak financial market local residents do not have the chance to use external financial means for the development of existing businesses or to develop new businesses).

3. Government policy for the agriculture and rural development sectors

3.1. Description and assessment of the state of the art in national regulations

Government policies in Azerbaijan are set out in the form of programmes with set timeframes and objectives enacted on the basis of presidential decrees. The country does not use framework strategic documents which define the long term priorities, but rather focuses on programmes that tackle a variety of horizontal and vertical issues as well as emerging needs. The programmes are used as basis for establishment of institutions; state owned commercial entities as well as support programmes required for their implementation.

The government is currently providing support aimed towards development of the agricultural and rural areas through the development of socio-economic infrastructure of the regions, reforms in the agricultural sector and implementation of different programmes and projects to support improvement of the business environment.

The Government has been trying to address the issues related to the agricultural sector since the independence of Azerbaijan. Initial reforms have been launched in an attempt to revive a once prosperous sector. Generally, reforms have been provided in two phases. The first set of reforms in the agriculture sector were embarked on in 1996. Land reform and privatisation of state property served as a basis of reforms in agrarian industry. Reforms included the establishment of 1,970 public enterprises involved in agricultural production, establishment of several processing and agricultural service enterprises, and 3.4 million people (867,000 families) are the beneficiaries of land parcel distribution (1.39 million hectares of land) as private property.

Agricultural producers and farmers were further supported with exemption from all taxes, except for land ownership tax. In the last several years increased attention has been paid by the Government to the Agricultural and Rural sector. In this regard the President of Azerbaijan stated *"The main aim is to decrease the gap between urban and rural areas and at the same time stop migration trends from the provinces to big cities"* during the meeting of the Cabinet Ministers on the results of socio-economic development in the country. This statement underlines that rural development is becoming one of the priority issues for the government.

The second phase of agricultural reforms, includes several government programs and approved decrees including the "State Program on development of small and medium size entrepreneurship in 2003-2005", the decree on "Measures on improvement of management in agrarian sector" and decree on "Additional measures on extending leasing in the agrarian sector" which resulted in the establishment of the "Agro-leasing Joint Stock Company". In the last few years the Government has ventured into subsidising (equalling to 100 million USD per year) wheat production (direct payments aimed at reducing costs of fertilisers and fuel).

3.2. Description and assessment of the current and planned Government agriculture and rural development policy interventions and/or strategies

The current documents setting out the Government policies for agriculture and rural development include:

- the State Programme on Socio-Economic Development of the Regions of Azerbaijan for 2009-2013, which sets out the re-establishment of agrarian processing enterprises, establishment of new manufacturing firms, increase of profitable use of natural resources, establishment and development of the necessary infrastructure for regional development;
- the State Programme on Poverty Reduction and Sustainable Development for 2008-2015,
- the State Programme on Ensuring Reliable Population in Food Provision for 2008-2015, and the
- “Azerbaijan-2020: glance to future” Development Conception.
- Development of tourism activities, especially rural tourism has been identified as important in the State Tourism Development Program 2010-2014, approved by Presidential Decree in 2010. The Government currently considers mechanisms for support to rural tourism activities in order to increase the income level of rural population.

The State Programme on Regional Socio-economic Development is aiming to develop a socio-economic infrastructure of the regions and to create a suitable business environment for local farmers and entrepreneurs. The results of the first phase of the State Program were evaluated as successful by the Government as during this period total production in the non-oil sector increased by 1.8 times, the total increase in agricultural production was 25.2% and the poverty level throughout country decreased from 40% to 13.2%.

The Ministry of Economic Development (MED) was responsible for the Rural Development measures during the second phase of The State Program – 2009-2013, announced by presidential decree dated 14 April 2009.

Direct support to agricultural production was based on a number of decrees and orders including the:

- Presidential decree on “State support to agricultural producers” dated 23 January 2007;
- Additional support to agricultural producers with seed, fertilizer and pedigree cattle” dated 02 August 2008.

In total, during 2007-2010, the government provided \$460 million of subsidies to agricultural producers.

The government during these years has embarked on a number of activities that provide direct and indirect support to the agricultural sector. All these activities are usually built around state owned service providers and processing facilities. For instance:

- Farmers are supported with subsidised access to agricultural machinery through the Agro leasing Company which provides leasing services to farmers with long-term and low-interest. Since inception in 2011, more than 400 agricultural machines have been leased to private farms and companies. In addition, cultivation support is provided through subsidised services from state owned Agro Service Centres¹. The state

¹ During 1998-2011 years 13,748 different agricultural machinery, 3,887 tractors, 1,298 combines and 8,563 other machineries have been purchased using different funds (state funds, grants of Japanese Government and other sources)

continuously invests in the modernization of the Agro Service Centres in all of the regions.

- Another example is the State Agency on Agricultural Credits under the Ministry of Agriculture which has accounted for credits to farmers in the excess of \$50 million. With the approval of the Charter of Azerbaijan Republic National Fund for Entrepreneurship Support and the Procedures on the Use of the Funds of Azerbaijan Republic National Fund for Entrepreneurship Support according to the Decree dated August 27, 2002, the National Fund for Entrepreneurship Support was established under the MED. It was established with the purpose to eliminate the problems in the utilization of concessionary credits provided from the state budget. In compliance with the Procedures, the proceeds of the National Fund for Entrepreneurship Support are placed through authorized banks selected by the Selection Committee established from the representatives of the MED Development, the Ministry of Finance and the Central Bank. This makes available credits to entrepreneurs with the lowest interest (annually 7%), with concessional period of the first three years.

Interested entrepreneurs apply with their proposals to authorized banks with a package of relevant documentation and their proposals are evaluated by the Selection Committee. The National Fund for Support to Entrepreneurship under the Ministry of Economic Development has financed up to 3,800 agricultural investment projects disbursing more than \$200 million in low-interest and long-term credits.

- There are number of state owned processors (cotton, sugar beet) which are collecting and processing the production from the farmers. In certain cases a single large processor operates on the entire territory of the country. Although farmers benefit from various contract farming support measures (guaranteed prices, credited inputs etc.), little competition exists in these sectors.

“Azerbaijan-2020: glance to future” Development Conception also considers rural development as one of the priorities for the country. The main issues related to non-oil industry and agriculture mentioned in the concept are:

- Development of agro-industry based on local raw materials;
- Continued support to agricultural production;
- Simplified credit mechanism for the agricultural sector;
- Improved insurance system in the agricultural sector;
- Promotion of corporative activities;
- Increased soil fertility;
- Promotion of ecologically clean agricultural production;
- Support for research activities and agricultural education;
- Security for the internal market and promotion expert of agricultural products.

All of the above mentioned state programmes are adopted at national level and they encompass activities or development goals, including objectives and targets (usually production targets etc.) for the regional level. There are no strategic or development documents prepared or adopted at local level.

All stakeholders agree that there is a need to differentiate between agro and rural development as different aspects are handled by various departments and ministries. Rural areas have been somewhat neglected on account of agricultural development. Many aspects of rural development are tackled in the various programmes, but there is no special policy for rural

development and therefore certain aspects falling ring between programmes and ministries² (agro tourism etc.) are missing and are not being addressed.

In addition, efforts to install legal frameworks for farmer organizations enabling them to consolidate both on local and regional level have resulted in initial progress (draft legislations) which, however, have yet to be enacted.

² Agro tourism is considered as part of the mainstream tourism programmes and institutions and as such is considered with low priority and is not addressed through any of the support programmes.

3.3. How correspondent Government programs fit into the ENPARD approach

The existing support programmes and the institutional setup is currently structured for the provision of direct subsidies to selected agricultural sectors (especially wheat and sugar beet) as well as the establishment of government owned service providers.

Given the nature and basis of the way support is provided to the sector, implementation of an ENPARD approach, based upon local interaction, would require some adaption of the current support mechanisms that are implemented through the Ministry of Agriculture and the MED.

3.4. Policy and Strategy critique

Azerbaijan is interested in participation in the ENPARD initiative. The approach could provide further stimulus for reforms in the agricultural and rural sector building on the results of the current and planned EU SPSP programmes in agriculture and rural development.

Rural development, although one of the priorities for the country, has not been given the appropriate policy attention. There is a declarative consensus (inclusion in documents, elaboration of semi-specific programmes) on the need for improvement in both government policies and funding for rural development, focusing more on the non-agricultural and community related aspects of rural development. However, there is rising awareness about the importance of the sector.

Azerbaijan is increasing state support provided to agriculture as direct production subsidies. However, it would be fair to say that there is an overall general lack of more holistic policies and funding arrangements to the ARD sector. This has resulted in limited attention towards rural development, and especially income diversification in rural areas.

In this case programme financing arrangements and requirements and support methodologies will need to be examined, including co-funding from the state (central, regional and local authorities) and by final beneficiaries.

Two prevailing issues also need to be incorporated within the policy framework and support methodology, which are common to all South Caucasus countries, regarding the delicate, and deteriorating ecological situation, evidenced by the amount of land lost to production due to bad and inappropriate practices. In addition the prevalence of animal diseases, including zoonoses in the region, cannot be overlooked, in working towards regional solutions and development approaches.

4. Assessment of institutional capacity (public and private) and gap analysis

4.1. Assessment of government institutions for managing, implementing and monitoring an ENPARD approaches

Various government agencies play key roles in the agricultural and rural development sector. The Cabinet of Ministers, the National Assembly, different Ministries and agencies, are usually taking the lead in planning, preparation and implementation of various state development programmes. The responsibilities of the different stakeholders in regards to Agriculture and Rural Development (ARD) are not clearly defined as the institutional system reflects the policy environment. The Agrarian - Industry Policy Unit of the Cabinet of Ministers and the Department on Agrarian Policy Issues at the Presidential Executive Office are the major Governmental units directing rural policy.

The Ministry of Agriculture (MoA) implements the agricultural state policy, namely in the spheres of

- development of primary production and processing of agricultural products;
- service provision and information dissemination to producers;
- amelioration and water economy;
- animal and plant health and appropriate soil management;
- implementation of scientific-technical support policy;
- food security; and
- economic and social development of rural communities.

The structure of Ministry of Agriculture was reorganized in 2004 according to Presidential decree #467 dated 23 October 2004³. The Department for Development of Investments, Programs and Projects in the organizational structure of MoA is the most relevant policy and programme development unit. It comprises of the Division for Development of Capital Infrastructure Investments and the Division for Preparation and Expertise of Program and Projects. Additional responsibility is vested in the Department for Development of Agrarian Reforms, Rural Areas and Entrepreneurship.

There are 14 research institutes (sector, wine, wheat, land, livestock etc.) subordinated to the MoA. The Institute of Economy and Organization of Agriculture addresses the issues of rural economy. The Institute regularly publishes annual reports and recommendations used by all stakeholders for the establishment of policies and for the preparation of State programmes.

The MED of Azerbaijan has also an important role in designing rural policy for the country and implementation of development initiatives. Two units from the Ministry of Economic Development are involved in rural and agricultural development: the National Fund for Entrepreneurial Assistance and the Scientific Research Institute for Economic Reforms.

Different international development agencies such as the World Bank, the IMF and IFAD are at times supporting the government through provision of technical and financial assistance. Various stakeholders working in the country (World Bank or IFAD) have established Project Implementation Units as they are considered to have more capacity compared with other governmental units and they have opportunity to attend to additional capacity building activities. There is a requirement for capacity building and support to the MoA and other line

³ In 2004 State Phyto-sanitary Control Service was established within the Ministry of Agriculture. In addition to the State Veterinary Service Unit, State Agency on Agricultural Credits, Agricultural Science Centre, State Seed Inspection Unit, State Commission on testing and securing selection achievements, Regional Agricultural Offices, State Agricultural University and other units functioning within MoA.

ministries for improvement of the capacity for preparation and implementation of a specific sector strategy and action plan.

Various stakeholders have expressed the need for governmental policies and the overall approach to be improved in order to tackle serious problems like soil salinization. In the past few years significant capacity building activities have been provided for some units of the MoA and other Ministries under different initiatives and for different sectors. For instance, the Republic of Azerbaijan has received a loan of \$8 million from the International Development Association for implementation of the Public Investment Capacity Building Project. The government will in addition co-fund by \$2 million, in the period 2009-2013.

The objective of support is to improve the quality and efficiency of the preparation and implementation of investment projects in key priority sectors. The project is aimed at training in the state of the art methodologies in project management and providing special technical courses for the selected sectors such as road and water supply and sanitation sectors.

4.2. Assessment of agriculture and rural economy stakeholders for managing, implementing and monitoring an ENPARD approaches

The rural economy and its stakeholders are in general underdeveloped, oriented to primary agriculture, concentrated upon areas benefiting from government support measures, market regulation and production regulation activities. Although agri-businesses are profit motivated, they also provide indirect support to the development process in the country. Large businesses related to agriculture are government owned, while small businesses and initiatives are few in number and have limited capacities.

Local authorities are institutionally weak and lack capacity for managing, implementing and monitoring external initiatives, such as an ENPARD. In general their role is limited to administration of government policy at local level and the collection of information for the respective ministries.

The civic society or NGOs active in agricultural and rural development are mainly donor supported and dependant. They are recognised by the government as supportive to the overall development. However they are not significantly involved in the development process of the country. The main role of NGOs is mainly limited to the local level, aiming to attract foreign investments in the rural infrastructure and the local economy. There are also local NGOs and consulting centres playing the role of implementing agency for provision of different services in the agricultural and rural sector. In case of an ENPARD approach, there would be need for related capacity building in order to increase efficiency and quality of programme management, implementation and monitoring.

Regarding Public-Private Partnerships, the Azerbaijan Investment Promotion and Advisory Foundation was established in 2004 with the purpose of maximizing the inflow of foreign direct investment in the non-oil sector of the economy. In August 2005 the Foundation had its mandate expanded to include export promotion and it was rebranded as Foundation to the Azerbaijan Export and Investment Promotion Organisation (AZPROMO).

The main goal is to promote exports and investments primarily in the non-oil sector and the creation of jobs, particularly in the rural areas within the framework of the poverty reduction strategy. The two public functions (trade and investment promotion) require further support and international expertise as they are new to Azerbaijan. There is also a need for strengthening of the capacities of AZPROMO for facilitation of public-private dialogue.

Agriculture extension and advisory services are supported by the Government. Different departments of the MoA provide agricultural extension services, but the level and the quality of the services are considered to be weak.

4.3. Assessment of the need for training of the agriculture and rural economy stakeholders including private sector, to utilize ENPARD approaches

Despite the number of on-going capacity building activities provided to governmental and non-governmental agricultural and rural economy stakeholders, there is a need for significant specific training in order to utilize ENPARD approaches, for capacity building for:

Government stakeholders:

- development of agricultural and rural investment programmes (infrastructure, community development) and actions focusing on eligibility, targeting, means and mechanisms for investment;

- development of the funding mechanism for proposed agricultural and rural investments;
- value / food chain: extension, advisory services and education, GAP, quality, animal and plant health and food safety
- national and local administration to prepare and analyse, programmes, monitoring and evaluation, information and implementation control

Private stakeholders:

- restructure and upgrade production standards;
- improving productivity, marketing, safety and quality standards;
- better understanding value chain, value adding and marketing;
- advantages of corporate activities such as producers groups

Other stakeholders (local authorities and NGOs):

- development of local development plans and strategies;
- NGOs for better participation in Regional and Rural Development process.

5. Review of existing ongoing programmes

5.1. Collection and comparison of results from different data sources

After gaining political stability and slight growth in the country's economy, the government of Azerbaijan has started to provide structural reforms and development support. Since 2000, regional development a strategic priority of the government. Close cooperation with different international institutions such as the IMF, World Bank, IFAD, FAO, Asian Development Bank and other international donors, was launched to involve substantial investments in rural development projects. Substantial Government funds were used as well for development programmes and projects since 2004.

Government of Azerbaijan

The government since the introduction of the strategy for diversification of economic activities and development of the non-oil sector and the rural regions has designed and started implementing several state programmes. At one point a separate programme tackling Rural Development was proposed, however the proposal was refused by the Ministry of Finance and the MED, concluding that sufficient measures exist under the State Programme for Regional Socio-economic Development.

The most important programme and projects include (details in Annex 2)

- ***The State Programme of Poverty Reduction and Economic Development (SPREAD- 2003-2005) and (2008-2015):***

Implementation of the State Programme in 2003-2005 resulted in maintaining overall macroeconomic stability, ensuring dynamic economic growth and holding inflation and national exchange rates at appropriate levels. The Government received credits from the IMF (\$119 million in 2001) and from the World Bank (\$17 million in 2003) for the implementation of the targeted Social Aid Programme. At present over 100,000 households receive such financial aid on a permanent basis. In order to continue the positive process in improving the population's welfare the second stage (2008-2015) State Program on Poverty Reduction and Sustainable Development (SPPRSD) was implemented.

In regard to issues related mainly to rural development the programme focuses on continuation of institutional reforms aimed at improvement of the efficiency of the agricultural sector, the review of the taxation policies (exempting agricultural producers), promotion of employment and self-employment in the rural areas, and improvement of the access to finance (credits), crop insurance mechanisms, introduction of quality assurance standards, improvement of private veterinary services and the capacity of advisory services.

Many stakeholders voice the need to expand the support programme to cover more agricultural crops and in particular to support crops with added value aimed for export, rather than only for cereals.

- ***The State Program for Regional Socio-economic Development (2004-2008) and (2009-2013):***

In 2003, government of Azerbaijan has announced this valuable and important programme related to regional development. Under this program government intends to develop the social and economic infrastructure in the regions and in income generating activities of the rural population. One of the activities under the programme was the establishment of state-owned refrigeration centres providing storage services to farmers.

- **“State Programme on Reliable Provision of the Population with Food in the Azerbaijan Republic” (SPRPPF) 2009-2015:**

This is the main policy related to food security in Azerbaijan. The Implementation Action Plan covers a wide range of agricultural and rural development activities. The goal of IFAD's strategy in Azerbaijan is to support the government's efforts to reduce poverty substantially and improve living conditions for disadvantaged rural communities. IFAD provides support within the overall framework of the State Programme for Poverty Reduction and Sustainable Development, and in particular for the development of rural areas and for agriculture as a dominant force in the rural economy. Its two main projects are the **Rural Development Project for the North-West** and the **North-East development project**

World Bank

The World Bank is the main financial institution supporting the Government of Azerbaijan in the provision of structural reforms, large infrastructure investments and rural development programmes. Cooperation of the Government with the World Bank started from 1995 and since then 14 different projects have been financed. The total cost of projects is more than \$600 million. The World Bank provides substantial financial support to the Government in the implementation of big infrastructure projects as the Rehabilitation and Completion of Irrigation and Drainage Infrastructure Project, The Second Highway Project in the Azerbaijan (total cost – \$505 million) and Rehabilitation of Highway Hacigabul-Bahramtepe. These infrastructure investments create suitable circumstances for economic development in rural areas. In the area of rural development, an important project is the Azerbaijan Rural Investment Project.

FAO

The FAO is providing technical assistance to MoA in providing institutional reforms, capacity building activities to main stakeholders in applying new technologies and direct implementation of development program and projects. Projects include:

- Strengthening the Trans Boundary Animal Disease Diagnosis, Surveillance and Control Capacities Project
- Assistance for the Establishment of a Farm Data and Monitoring System project
- Capacity Building in Rural Development for Internal Displaced Person (IDP) and Refugees in New Settlements of Aghdam District Project

The European Union

EU Cooperation in the Agriculture and Rural Development is significant and relevant to the regional priorities identified under the assessments of the EaP countries. Full details of the programmes are in *Annex 2*. The SPSP programmes in ARD and Regional development are very relevant to establishing a basis for a future ENPARD programme, and also to provide feedback on development outcomes of wider relevance in the South Caucasus and the EaP region in general.

On-going programmes

1. Agricultural and Rural Development Support Programme – Sector Budget Support € 13,000,000 (indicative amount), 3-year programme expected at the end of 2012
2. Support the State Veterinary Service Prepare for a National System for the Identification of Animals and Registration of Holdings – Twinning project, € 1,000,000, 21months from April 2011

3. EC/FAO Programme on linking information and decision-making to improve food security 2010-2012, € 3,000,000 divided between 4 countries, 36 months from January 2010
4. Twinning - Strengthening the Initial Vocational Education in the Field of Agriculture in the Republic of Azerbaijan, € 1,200,000, 21 months from August 2011
5. Enhancing the livelihoods of IDPs in the Goranboy district through tangible agricultural advancement, EU contribution 209,000€, 18-months from end of 2011
6. Improving capacities to eliminate and prevent recurrence of obsolete pesticides as a model for tackling unused hazardous chemicals in the former Soviet Union (implemented by FAO)
7. EU contribution: € 6 million, 48 months from 1st January 2012

Planned programmes (under preparation)

- ***AAP2011 Rural Development Support Programme €19.5m:*** The two specific programme objectives are (i) rapid development of the labour and entrepreneurship potential in the rural areas, able to meet demand of rural businesses to accelerate their integration in the world economy; (ii) MoED coordinating rural development effectively and efficiently
- ***AAP2013 Support to Regional and Rural Development in Azerbaijan (SRRD) €10m:*** The overall objective of the programme is to support the GoA's efforts in the diversification of the economy and sustainable developments of the regions. The specific objectives of the programme are to: (i). To establish a pilot scheme for the promotion of community-based rural and regional development programmes generated at the local level; (ii). To strengthen national and local authorities' capacities to plan, implement and administer programmes directed to enhance socio-economic development of regions; (iii). To support respective institutions in the prioritization, identification and appraisal of large investment projects that might be further financed through state budget or through an innovative financial blending mechanism.

USAID

USAID has made significant investment in the agricultural and agribusiness sector to ensure this critical segment of society receives the appropriate inputs, technology, information and training to be competitive in world markets and be provided with sustainable job opportunities.

Projects include

- Agricultural Business Assistance and Development Project which set up Business Development Resource Centres have been opened in each of nine economic regions of Azerbaijan.
- Rural Enterprise Competitiveness Program aimed at enhancing and strengthening free market orientation through a variety of activities.
- Community Development Activity, a five-year (8.5 Million USD) programme operating in 14 of Azerbaijan's 66 rayons (districts) during previous years.
- Socio-economical development activity (SEDA) aims to contribute to the advancement of the socio-economic development at the regional level in Azerbaijan.
- Supporting Azerbaijan's accession to the World Trade Organization through diversifying its Exports". tor.
- Trade and Investment Reform Support Program in Azerbaijan (TIRSP) helped Azerbaijan improve its business climate and primed the country's economy so it could benefit from integration with the global economy.

SDC

The Swiss government through Swiss Development Agency (SDC) currently, supports Rural Development in two regions of Azerbaijan. With overall budget of 6 million CHF both projects apply the “*Market for the poor*” approach with the aim to support most vulnerable rural farmers to better analyze the value chain and improve their access to markets.

5.2. Presentation of benchmarks

The summary of projects and programmes in the sector demonstrates a number of initiatives are under implementation, addressing the rural and agricultural sector. Government initiatives focus on a reliable food supply (production subsidies), improvement of social infrastructure and targeted social assistance. International initiatives on infrastructure and services, business development, increasing the capacities of farmers and farmer organizations and private businesses, and market linked initiatives in selected regions often with poverty as a main targeting criteria.

Bearing in mind the objectives of an ENPARD

1. To improve **rural livelihoods**: inclusive economic growth and sustainable development of rural areas
2. To contribute to **food security**: sustainable provision of affordable food; food safety and raising quality standards to better benefit from export markets
3. To improve **administration**: developing institutional and stakeholders' capacities, including design and management of agricultural strategy

outcomes and process benchmarking would need to be orientated around the full participation of rural communities, in identifying priorities and being actively involved in developments and in their co-financing. Such a Rural Community Empowerment and Livelihoods Enhancement approach would need to be measured and benchmarked in relation to:

- Empowerment of rural communities by strengthening the capacity of the local administration and facilitating the participation of the local communities in rural development activities.
- Support in the identification and implementation of demand-driven agricultural production and post-harvest projects by producer organizations: adding value to village level production and diversifying rural activities and employment opportunities and market access.
- Increasing the levels of understanding of opportunities to respond to climate change and reduce the level of risk associated with extreme weather conditions by the development of specific regional and community programmes that focus upon appropriate and good practices.

6. Bottlenecks and SWOT analyses

6.1. Sectors specific SWOT analysis

The economy of Azerbaijan is currently developing, thanks to political stability and significant oil revenues. The most developed sector is the oil industry and other related industries. Other non-oil sectors including industry, transportation, communication and tourism are also in a development stage enjoying flows of both government and private investment. However, this is not happening in rural areas of the country, where the main economic sector is agriculture and related industry.

Despite large investments in rural areas under different State programmes, there are still bottlenecks on which there is broad agreement among stakeholders. These can be listed as following:

- Poor infrastructure, both social and economic in remote rural areas (bad conditions of roads, poor water supply, dysfunctional irrigation and drainage systems) are inhibiting development;
- Underdeveloped agricultural markets and disorganized market chain;
- Poor business environment in rural areas making rural areas less attractive for large investments by private sector;
- Inefficient public services, including extension services, and institutional capacity (lack of or inefficiency of public services such as agricultural extension services, precise research and market information services reduces the ability to take advantage of market opportunities);
- Undeveloped agro industry (mainly domestic value-added agro-processing) and weak access to markets;
- Lack of skills and knowledge on modern technology or requirements of export markets of private entrepreneurs and farmers;
- Weak access to acceptable financial means or government incentives to develop the business environment in rural areas.
- Credit instruments not adjusted to agricultural production (not seasonally sensitive, high interest rates and poor information provided to farmers);
- Low fertility of lands (persisting erosion and salinization) leading to low productivity in agricultural crop production;
- Degradation and low-productivity of pastures and under-developed fodder sector leading to low productivity in livestock production;
- Not enough support for local markets (in terms of promotions for local producers) in competition with relatively cheaper imported agricultural products;
- Un-organized land market and non-existence of mechanism for estimating land value;
- Weak access to international markets due to non- application of relative norms quality and standards and lack of knowledge or export incentives. Most exports are through intermediaries and lack of proper management of state owned post-harvest and storage centres add to the lack of export possibilities.
- Agricultural insurance not available causing huge constraints for agricultural producers, especially during unfavourable seasonal conditions.
- Significant out migration from rural areas.
- Significant differences in salaries (even of government officials) in rural and urban areas as well as higher costs for certain services (internet) in rural areas.

In considering a SWOT related to an ENPARD process, the matrix would focus upon:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Rural Development is slowly becoming a priority issue for the government (amount of investments in rural infrastructure and economy increases year-by-year); • There are significant State programmes functioning aiming to achieve agricultural and rural development; • There are already established mechanisms for credit provision for local producers through State Fund for Support to Entrepreneurship and State Agency on Agricultural Credits; • EU is highly engaged in leading the policy reform and improving responsiveness by the Government; • A number of scientific institutions exist within the government structure, able to provide significant contribution; 	<ul style="list-style-type: none"> • Fragmented development programmes without a consolidated approach or policy frame; • Priorities are still with food security rather than with agricultural and rural development, based on added value and increasing rural income; • Overlapping competencies of various government institutions often without clear mandates on rural development; • There is no dedicated unit at the Ministries that can focus on ENPARD as a whole and in the current setup different Ministries should be responsible for different measures. • Top-down approach of the government supported programmes often ignore regional differences; • Government led and managed development services (machinery services, processing and storage) of agriculture are not flexible or dynamic enough to fit all specifics of the diverse rural communities. In addition, the approach although yields initial results does not stimulate and does not contain support mechanism for development of local level entrepreneurship and local initiatives; • Low capacity for agricultural and rural economy stakeholders, including the non-governmental, private sector and local authorities; • Limited capacity and experience of the Government institutions to design and implement ENPARD type approaches; • Targets and indicators tied to production volumes; • Limited support for income diversification in rural areas and non-agricultural income generating activities; • Limited local level initiatives or documents identifying priorities, opportunities and gaps for development;
Threats	Opportunities
<ul style="list-style-type: none"> • Reduction in oil prices could negatively affect governmental policy (amount of investments could be reduced); • Failure to identify Agriculture and Rural development as priority for the next programming period; • Limited support available under the ENPARD instrument resulting in limited interest for policy reforms by the 	<ul style="list-style-type: none"> • The main sectors of rural economy, such as agriculture and tourism, have great potential for development; • Different international organizations are interested in agricultural and rural development issues and provide significant support to the government in the preparation of strategies, program and projects in rural areas.

<p>Government;</p> <ul style="list-style-type: none"> • Further centralization of service provision and added value under state ownership in rural areas, fostering a “take it or leave it” mentality, diminishing local development initiatives; 	<ul style="list-style-type: none"> • Continuous support from international development agencies • Donor support can increase with improved responsiveness for reforms; • State owned/managed service providers can benefit the overall development activities;
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6.2. List of the most relevant priorities areas

There are many aspects that need to be addressed in order to achieve an appropriate policy and institutional environment that will foster agricultural and rural development in the country. The most relevant priority issues for Azerbaijan are:

- Increase of institutional capacity for efficient policy making, programme management and planning of targeted public investment and funding;
- Comprehensive policy approach to rural and agricultural development;
- Improved public services (agricultural research, education);
- Improved business environment in rural areas (rural infrastructure – road, water supply, electricity, communication, potable water and sanitation, investment incentives);
- Capacity building for rural stakeholders in the field of quality and standards in higher value markets.

7. Recommendations on actions that could be implemented in a bilateral context

The ENPARD is an approach to support agriculture and rural development in ENP countries where these sectors are declared as a priority area within the context of the country strategy plans, within the next programming round for ENP partnership and assistance programs, 2014-2020. Azerbaijan is interested in ENPARD, both bilaterally and multi-laterally. An ENPARD approach could provide a further stimulus for reforms in the agricultural and rural sector.

- Rural development although listed as one of the priorities for the country is not being given the appropriate attention. Although there is a consensus (inclusion in documents, elaboration of semi-specific programmes) on the need for improvement in both government policies and funding for rural development focusing more on the non-agricultural and community related aspects of rural development. However there is rising awareness about the importance of the sector which might improve the overall situation in the rural areas.
- While Azerbaijan is increasing the level of support provided to agriculture, the lack of appropriate policies and funding has resulted in limited attention towards axis two - rural development and income diversification measure. It is recommended that ENPARD support is aimed at support measures within axis 2 type of activities for all rural inhabitants (non-agricultural and subsistence oriented rural residents and communities) and axis one type facilities for (private) agricultural SMEs, with appropriate financing mechanisms involving central, regional, local, enterprise and household levels.
- ENPARD supported technical assistance should be appropriately used for further capacity building of stakeholders and awareness rising on all levels, especially the main institutions, the Ministry of Agriculture and the Ministry of Economic Development. These institutions are central to the disbursement of state sector support programmes, where the current institutional setup is structured for the provision of direct subsidies to selected agricultural sectors (wheat, sugar beet, cotton etc.) as well as establishment of government owned service providers.

The forthcoming EU Sector support programmes: Agricultural and Rural Development Support Programme (€ 13m), and the planned Support to Regional and Rural Development in Azerbaijan (SRRD)€ 10m and Rural Development Support Programme€ 19.5m will no doubt influence the mechanisms for targeting the distribution of budget funds.

7.1. Identified gaps for development of agricultural and rural sector in the framework of future actions

1. Lack of a rural development policy

Identified as an important regional gap in the development of an ENPARD. The consideration of this gap is of primary importance in respect to:

- A common rural development policy and supporting mechanism;
- Local Action Groups - their role and formation;
- Development of a package of good agricultural practices together with enforcement and monitoring procedures.

2. Producer Organisations

A pressing issue and major constraint is related to land fragmentation and the instruments that could be used to develop the enlargement of holdings through cooperation and association. In this respect a regional position is needed on the formation of cooperatives / producer organisations. This would define the products and services such organisations would engage with, and set out the requirements to be eligible for support, where the basic features would be that they: be voluntary; contribute to the general aims of the regime, and; prove its utility by the scope and efficiency of the services offered to members.

3. The modernisation of the infrastructure

There are a number of value chains that are of relevance in the sector and have potential to contribute to the rural economy. The main constraints to development of these value chains identified during the assessment, were:

- Low level of professionalism and training in rural communities
- Gaps in standards, regulations, legislation and comparative information
- Under-developed food safety system: sanitary-veterinary

3.1 Milk and milk products

In the EaP as a whole the most valuable commodity groups are milk and meat, for both domestic supply and international trade. In the milk sector, in most countries in the region, production is currently undertaken by households, utilising free access pasture and range lands. The milk and milk product supply chain is a primary candidate for consideration on a national basis, and regional basis, in dealing with the needs for modernisation, enterprise development and supporting reforms and legislative development. Issues include:

- Common and harmonised standards for dairy and dairy products in the region;
- Measures for the commercialisation of dairy (milk) production in the region;
- Measures to achieve accreditation status of farms (brucellosis free) for enterprises and communities in the region through the implementation of animal diseases prevention and control programmes, specially for brucellosis and tuberculosis, which can easily spread among animals and humans through milk and milk products
- Measures to achieve a higher quality and added value of milk products (e.g. geographical indications of milk products could be promoted following the successful GI on Georgian wines)

3.2 High Value Agriculture (HVA)

The plant based value chain of especial importance to private household land users is HVA, in particular fresh fruits and vegetables. These products form important elements of family

incomes and land use, domestic supply and international trade. Land use for HVA production includes nearby lands (kitchen gardens and yards) and arable lands in irrigated areas.

7.2. Proposals for actions in Azerbaijan and the South Caucasus to address these gaps

The EU has become a primary trading partner of the South Caucasus countries. In 2009 trade with the EU represented 30.4% of overall trade for Armenia, 42.8% for Azerbaijan and 29.4% for Georgia. As a consequence, in December 2011, the EU launched DCFTA negotiations with Moldova, Ukraine, Georgia and Armenia, as future partners for DCFTA agreements. As membership of the WTO is a precondition, negotiations for a DCFTA cannot be entered into for Azerbaijan or Belarus. One of the most serious limitations that Eastern Partnership countries face in promoting trade and DCFTA's negotiations is in the compliance with EU and WTO/SPS sanitary and phytosanitary measures. The primary problems (especially in the South Caucasus refer to:

- Transboundary Animal Diseases (TAD's) and zoonoses. The emergence and progressive spread of animal diseases in the region poses a serious economic and social problem, and a high risk for neighbouring countries, including EU countries. African swine fever, avian influenza, brucellosis, bovine tuberculosis, anthrax, foot and mouth disease and rabies included.
- A lack of access to animal health services. The animal health support policies of these countries, still centralised, have not been improved in order to adapt them to a market economy.
- The livestock sector is not oriented toward the needs and demands of the EU market. Even though livestock is a main source of livelihoods, the Eastern Partnership countries, include an agriculture sector composed of a majority of small subsistence farms with little resources and growth potential and not commercialised or market orientated.

These persisting issues call for a South Caucasus Animal Health initiative, to develop a framework to improve the animal health situation in the region, and to provide guidance in terms of livestock and livestock products trade.

In line with the ENP principles, EU and WTO/SPS standards, this would result in a strategy that could enable improve prevention and control activities and some conformity with EU/SPS animal health standards. This is important, not only for the trading and transboundary movement of animals, but also in establishing a safe food supply as an essential element of a tourism and leisure sector, in the broader context of public health. The cuisine and diets in the region are based upon dairy and meat.

The agenda for this regional network would focus upon:

1. Capacity building of public and private professionals;
2. Awareness campaigns for stakeholders directly involved in the animal and food industries;
3. Support to the establishment of prevention, control and surveillance animal health programmes, and Early Warning and Rapid Response Systems according to international standards;
4. Harmonisation of protocols for regional and national veterinary diagnostic laboratories according to international standards.

8. Identification of regional gaps and priorities and recommendations for future actions

Cooperation between the EU and its Eastern European partners - the Republic of Armenia, the Republic of Azerbaijan, the Republic of Belarus, Georgia, the Republic of Moldova and Ukraine – is a crucial part of the Union's external relations.

Eastern Europe (EE)

Belarus, Moldova and Ukraine

Eurasian steppe lands and black soils of Moldova and Ukraine, the marshes, forests and loamy soils of Belarus



South Caucasus (SC)

Armenia, Azerbaijan and Georgia

Trans-Caucasus, the borderlands of Eastern Europe and South-West Asia, defined by the Kura-Aras River Basin, between the Black and Caspian Seas



Platforms are the main tool of the Eastern Partnership (EaP) multilateral track. They reflect the four main areas of cooperation between the Eastern Partner countries and the EU, namely:

- Democracy, good governance and stability (platform 1);
- ✓ **Economic integration and convergence with EU policies (platform 2);**
- Energy security (platform 3) and
- Contacts between people (platform 4).

In accordance with the General Guidelines and Rules of Procedure of the Eastern Partnership Multilateral Platforms (5 June 2009), an “**Eastern Partnership Panel on Agriculture and Rural Development**” has been established. The Directorate General for Agriculture and Rural Development chairs the Agriculture and Rural Development Panel and Directorate General for Development and Cooperation assure consistency of the Panel's proposals with the EU development policies and guidelines.

The Panel objectives shall be the following, as confirmed by the participants of a regional technical workshop on "Agriculture and Rural development in the Eastern Partnership Countries held in Brussels on 19 November 2012:

- facilitate the exchange of experiences and best practices on sustainable development of agriculture and rural areas in the EU and in the Partner Countries, including on sector-specific strategies, policies and institutional capacities,
- serve to support further development and implementation of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) – by identifying sector challenges common to the Partner Countries and supporting the Partners in designing common solutions to be applied at national and regional level,
- Improve consistency and avoid duplication of measures taken by Partner Countries at national and regional level.

Activities of the Panel shall include:

- Sharing of information and best practices between the participants (in the form of presentations and exchange of views), including on policy approaches, procedural

requirements (incl. stakeholder involvement), administrative and organisational requirements, etc.,

- Identification of areas of intervention that could be considered while identifying programmes to be co-financed by the EU and/or the international financial institutions (IFIs).

8.1. Assessment of regional variations and disparities in agriculture production and rural development, including the livestock sector

In general there are distinct differences between the South Caucasian and Eastern European countries that make up the Eastern Partnership. In the South Caucasian countries the 'self employed' smallholders make up 97.33% of all holdings and account for practically all production of plant and animal products. The 'self-employed' have, in common with the same categories in the Eastern European countries, no fiscal or statistical identity, paying no taxes other than levies or land taxes at local level. Statistics on the self-employed are very broadly based, often anecdotal, and with no reliable data available on market participation, economic size or actual working units.

The small land holdings held by the rural population following land distribution (except in Belarus) are subdivided into separate land plots, by type, including kitchen gardens. This, combined with little association or cooperation, results in a peasant based agriculture. A lack of any packing, storage, handling and distribution infrastructure and market networks constrains value adding through quality and longer season availability with high wastage.

A. Land Use: the EaP6 (SC3 & EE3) compared to the EU27⁴(million Ha)				
	SC3	EE3	EU27	TOTAL
Land area Total	18.63	84.51	400.42	503.56
Agriculture area Ha	9.91	53.92	170	233.8
Agriculture Area %	53.2%	63.8%	42.5%	46%
Arable 61%	3.25	42.62	97.3	143.2
Permanent 5%	0.57	1.33	10.9	12.8
Other 34%	5.60	9.97	61.8	77.37
B. Land Tenure: the EaP6 (SC3 & EE3) compared to the EU27(millions)				
Population Total	16.7	58.82	502.5	578.02
Rural %	45%	31.55%	23%	24.5%
Rural total	7.51	18.56	115.57	141.64
In agriculture %	44.3%	9.2%	5.2%	6.7%
In agriculture	7.4	5.35	26	38.75
Number holdings	2.7	7.8	14	24.5
Average size HH	1.48Ha	1.4Ha	14Ha	

⁴ EU27 statistics drawn from EUROSTAT, EaP6 as available, and not on the same basis

Private / HH	97.33%	45.9%	47% ⁵⁾	63.41%
Agri-Enterprises	2.67%	54.1%	53%	

A common feature of the South Caucasian countries, especially following the 2007 drought and restrictions on imports from traditional suppliers of grains, is a push to develop a reliable supply of foodstuffs, especially of wheat. This objective is being supported by area payments and input subsidies provided through treasury arrangements.

This push for grain production is itself forcing land block consolidation initiatives - both formal and through legislative arrangements for producer and agriculture cooperatives, combined with fiscal arrangements to lift barriers, including turnover and VAT thresholds. There are also significant problems in these countries regarding a requirement for irrigation and the consequent problems due to inappropriate practices with salinity, causing land losses to production as well as significant areas of unused land, simply left idle by the owners - many hundreds of thousands of hectares.

In contrast are the very large enterprises in Eastern Europe, in particular Belarus and the Ukraine. However, in the Ukraine and Moldova, there are a very large numbers of title holders of small agriculture land plots, including kitchen gardens, demonstrating the same problems and constraints to development as in the South Caucasian countries, just with better soils and climatic conditions.

The South Caucasian countries contain very large areas of state owned and communal pasturelands, which are used as the only source of grazing of animals, owned on an individual basis. The herding of animals on a large scale on these pasturelands, summer pastures on the highlands that also form borderlands, results in problems of both a lack of range / grassland management and animal disease control, in-country and trans-boundary. The list of zoonoses present and endemic in the area is extensive. In the Ukraine and Moldova livestock tend to be held by small-holders and grazed on near-by communal lands, there-by constraining production and putting great pressure on (unmanaged) pastures and on ground waters as the animals are housed on household yards.

Trade and enterprise development is a complex issue in all the countries, including negotiation of quotas and tariffs within the trading blocks, including the EU, the Customs Union and in the wider WTO context.

At national level the issues are more pragmatic, not least the incorporation of common rules and standards, information on performance and cost structures, and technical barriers, most significantly SPS.

⁵ Defined as less than 1 ESU = € 1200

8.2. Recommendations on actions that could/should be implemented in a regional context

Framework for multilateral cooperation

It is expected that ENPARD will help partner countries to operate more effectively in foreign markets, to benefit fully from the future DCFTAs, to stimulate farming domestically and to promote long-term agricultural and rural development strategies.

The main regional similarities that feature to a greater or lesser degree in each of the EaP countries' ARD sectors can be clustered in two distinct groups, namely (a) Agri-food supply chain constraints and inefficiencies and (b) Institutional and policy constraints and inefficiencies:

A. Agri-food supply chain constraints and inefficiencies:

- A.1 Fragmented land holdings and lack of producer cooperation and integration
- A.2 Low level of professionalism and training in rural communities
- A.3 Gaps in standards, regulations, legislation and comparative information
- A.4 Lack of food security in strategic cereal and animal origin products
- A.5 Outdated technology and lack of appropriate infrastructure in rural areas
- A.6 No codex or incentives for good agriculture practices

B. Institutional and policy constraints and inefficiencies:

- B.1 Under-developed food safety system: sanitary-veterinary
- B.2 No rural development policy, assigned competence or budget resources
- B.3 A concentration on production subsidies with no cross compliance mechanism
- B.4 A need to prioritise the many priorities & include within budget frameworks

All of the above challenges can be differentiated by scale in each country, approaches to sector support, policy priorities and objectives, and the extent of involvement in trade but the commonality of the challenges and some of the ways in which these might be overcome provide a platform for further consideration of regional activities that could provide support and benefits for all countries of the region. These support areas/ needs can be considered to fall within three broad thematic areas, as follows:

1. *Agriculture and Rural Development policy, institutional and regulatory framework development:*

The rural populations in all EaP countries have long been taken for granted and often ignored in the policy and programming process. One of the consequences of this policy vacuum has been the gradual depopulation of rural areas as the economically active migrate to cities or abroad. These negative demographic trends, combined with a need for a vibrant working population to support agri-industry requires a more robust policy and institutional commitment to be developed in response.

1.1 Rural development policy, competence and budget resources

- 1.1.1 Need for clear rural development policies, assigned competence and strategic priorities, supported by a defined budget framework
- 1.1.2 Need for policies and programmes to promote food security in strategic cereal and animal origin products and realignment of production subsidies and support payments to ensure cross compliance / improvement in farming practices and standards

1.2 Standards and regulations

- 1.2.1 Need to fill gaps in agri-food product standards, regulations, legislation and comparative information on production (gross margins)
- 1.2.2 Need to develop systems to ensure food safety and animal health standards

2. Agriculture and livestock sector competitiveness and sustainable productivity enhancement

2.1 Land management and improving the environment

- 2.1.1 Need to develop policies and programmes to address fragmented land holdings and lack of producer cooperation and integration
- 2.1.2 Need to develop programmes to increase professionalism and vocational training of both farming and non-farming rural stakeholders
- 2.1.3 Need to promote improvements in the access and use of appropriate technology and appropriate infrastructure in rural areas
- 2.1.4 Need to develop sensible and manageable codex for good agriculture practices

3. Community-led rural development

3.1 Improve the quality of life and encourage diversification of economic activities

- 3.1.1 Need to promote more community driven rural development responses to improve conditions in rural areas
- 3.1.2 Need to promote support systems and measures to encourage (sustainable) diversification of rural economic, social and cultural activities.

9. Conclusions and lessons learnt

9.1. Overview

This study, “*Assessment of the Agriculture and Rural Development Sectors in Azerbaijan*” has reviewed the importance of agriculture and rural development sectors of Azerbaijan, recognizing their significant proportion and importance for the national economy, and a crucial need for modernisation. The study covered all stakeholders involved in the agriculture and rural development sectors, including representatives from governmental bodies, international organizations, donors, and non-governmental organizations. The information included in the study envisaged:

- background and key figures of agriculture and rural development sectors in Azerbaijan;
- status of government policies for the agriculture and rural development;
- strategic priorities areas and key measures concerning the development of agricultural policy in Azerbaijan;
- information of the EU- Azerbaijan relations and the principles for supporting agriculture and rural development;
- the importance of identifying problems and solutions for agriculture and rural development;
- how correspondent Government programs fit into the ENPARD approach, and possibility of benefiting of EU funds through an ENPARD programme.

The study concludes that while there is recognition of agriculture and rural development issues there is a need for a more coherent approach, a streamlining of priorities and the establishment of structures and capacity that can address the rural agenda in a cohesive manner. The study identifies opportunities and what is needed to exploit these – investment, regulation, co-operation, legislation and skills development at all levels. An ENPARD approach would bring focus and cohesion and would help to identify the areas where future action on a bi-lateral and regional basis would have the greatest impact.

A Workshop (Annex 1), involving main stakeholders, was organised to identify and define national initiatives and priorities for agriculture and rural development sectors. The main recommendations were that:

- ✓ Azerbaijan is interested in participation in ENPARD initiative, including initiatives in bilateral and multi-lateral initiatives. The ENPARD approach could provide further stimulus for reforms in the agricultural and rural sector building on the results of the SPSP programme.
- ✓ Rural development although as one of the priorities for the country has not been given the appropriate attention. Although there is a stated consensus (inclusion in documents, elaboration of semi-specific programmes) on the need for improvement in both government policies and funding for rural development focusing more on the non-agricultural and community related aspects of rural development. However, there is rising awareness about the importance of the sector which might improve the overall situation in the rural areas.
- ✓ Beside the fact that Azerbaijan is increasing the support provided to agriculture, the lack of appropriate policies and funding has resulted in limited attention towards rural development and especially income diversification in rural areas. ENPARD should focus on support measures for axis 2 type measures for all rural inhabitants (non-agricultural and subsistence oriented rural residents and communities) and axis one type measures aimed at (private) agricultural SMEs only, financed through state budget or an innovative financial blending mechanism.

- ✓ ENPARD supported technical assistance should be appropriately used for further capacity building of various stakeholders and awareness rising on all levels, in accordance to already established needs.
- ✓ The Ministry of Agriculture and the Ministry of Economic Development are the main institutions operating existing state support programmes and institutional setup, which is structured for provision of direct subsidies to selected agricultural sectors (wheat, sugar beet, cotton etc.) as well as establishment of government owned service providers. An ENPARD, based on wide participation of rural communities in identifying priorities, outcomes and involvement in co-financing would require a widening of the institutions involved at central, regional and local levels.

The forthcoming EU Sector programmes: Agricultural and Rural Development Support Programme (€ 13m), and the planned Support to Regional and Rural Development in Azerbaijan (SRRD)€ 10m and Rural Development Support Programme€ 19.5m will no doubt influence the mechanisms, measures and targeting criteria.

9.2. Common Regional Agenda Items for the Panel on Agriculture and Rural Development

1	<i>Agriculture and Rural Development policy, institutional and regulatory framework development</i>
1.1	Rural development policy, competence and budget resources
1.1.1	<i>Issue: No rural development policy, assigned competence, or strategic priorities within a defined budget framework.</i>
1.1.2	<i>Issue: inclusion of cross compliance mechanisms within state support measures aimed at improving food security in strategic arable (cereals) and animal products.</i>
1.2	Standards and regulations
1.2.1	<i>Gaps in standards, regulations, legislation and comparative information</i> <i>Issue: a need for common standards meeting international and EU standards, to include compliance measures - monitoring and inspection mechanisms for existing regulations</i>
1.2.2	<i>Under-developed system of food safety and animal health</i> <i>Issue: compliance with SPS standards especially veterinary-sanitary for animals and animal products</i>
2	<i>Agriculture and livestock sector competitiveness and sustainable productivity enhancement</i>
2.1	Land management and improving the environment
2.1.1	<i>Fragmented land holdings and lack of producer cooperation and integration</i> <i>Issue: the predominance of small and fragmented land plots leads to inefficient and insecure supply of agriculture products</i>
2.1.2	<i>Low level of professionalism and training in rural communities</i> <i>Issue: access to training and education for rural producers through extension services, farmer schools and college courses</i>
2.1.3	<i>Outdated technology and lack of appropriate infrastructure in rural areas</i> <i>Issue: outdated and inefficient systems for production and post harvest operations including storage, handling, distribution and markets</i>

2.1.4	Regional codex for good agriculture practices <i>Issue: Definition of a codex for good agricultural practices and the supporting mechanisms, including water and irrigation</i>
3	Community-led rural development
3.1	Improving the quality of life and encouraging diversification of economic activities
3.1.1	Promoting community driven rural development <i>Issue: mechanism to enable community participation in agriculture and rural development policy and strategy development</i>

The first proposed topic for the panel on agriculture and rural development (Technical Workshop 19th November, 2012, is: ***'What is Rural Development?'***

10. List of references

- www.azstat.org
- Rural development situation analysis and recommendation report, The National Medium Term Priority Framework of FAO, 2009
- Country Note, Azerbaijan, WB, 2011
- www.agro.gov.az
- Rural Transition in Azerbaijan, FAO, 2005
- UNDP, Reducing Transboundary Degradation in the Kura-Aras Basin
- IFAD, Integrated Rural Development Project (IRDP)
- State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015
- Support the State Veterinary Service Prepare for a National System for the Identification of Animals and Registration of Holdings
- The State Statistics Committee of Azerbaijan Republic
- The State Land and Cartography Committee of Azerbaijan Republic
- Statistics, trends, references: EUROPA, EUROSTAT, FAOSTAT, AZSTAT, IndexMundi, World DataBank, USDA, IMF

11. Annexes

Annex 1 Workshop report

Annex 2 Existing Programmes in Agriculture and Rural Development

Annex 1: Workshop report

Workshop Programme, Baku, Azerbaijan, October 8th, 2012

9.00 Registration of the participants

09.30 Opening: *Vice Minister of Agriculture of the Republic of Azerbaijan; EU ENPARD focal point in the EU Delegation to the Republic of Azerbaijan*

09.45 An introduction to the workshop, concept and strategy, **FAO**.

10.00 Strategic priorities for the activities of the Ministry of Agriculture in the in the framework of ENPARD

10.30 Presentation of the study, “Assessment of the Agriculture and Rural Development Sectors in the Republic of Azerbaijan“:

Country report, **Mr. Bariz Mehdi**, *FAO national consultant*.

Priorities, gaps and targeting in agriculture and rural development, **Mr. Mark Le Seilleur**, *FAO international consultant*.

11.30 Coffee Break

12.00 Group discussions, moderated by **Dragan Angelovski**, *FAO international consultant*.

12.30 Summary of conclusions/recommendations and lessons learned, presenting guiding principles for future intervention. **Dragan Angelovski**, *FAO international consultant*.

13.00 Closing of the workshop Mr. Olaf Heinelbach, *EU ENPARD focal point in the Republic of Azerbaijan*

Workshop Group Discussions

1. Policy Documents related to Rural Development and Agriculture

The Government policies in Azerbaijan are created in the form of state programmes enacted on basis of presidential decrees, with set timeframes and objectives. The country does not use framework strategic documents which define the long term priorities for agriculture or rural development, but rather focuses on short to medium term documents that tackle variety of horizontal and vertical issues and emerging needs. The programmes are also used as basis for establishment of institutions and support structures required for their implementation including state owned commercial entities.

✓ National level

The government since the introduction of the Strategy for Diversification of Economic Activities and Development of the non-oil sector and the rural regions has designed and started implementing several State support programmes.

At one point a separate program tackling Rural Development was proposed, however the proposal was refused by the Ministry of Finance and the Ministry of Economic Development, concluding that sufficient measures exist under the State Program for Regional Socio-economic Development.

The ongoing programmes that provide support for the Agricultural and rural sector are:

- The State Programme of Poverty Reduction and Economic Development (2008-2015);
- The State Program for Regional Socio-economic Development (2009-2013);
- “State Program on Reliable Provision of the Population with Food” (2009-2015);
- The Azerbaijan vision for 2020 programme identifies additional policies related to agriculture and rural development.

Various Government agencies play key roles in the agricultural and rural development sector. The Rural Policy Unit of the Cabinet of Ministers and the Department on Agrarian Policy Issues at the Presidential Executive Office are directing the agricultural and rural policy. In addition the Cabinet of Ministers, the National Assembly and different Ministries and agencies are contributing in the planning, preparation and implementation of various State Development Programs.

The responsibilities of the different stakeholders in regards to Agriculture and Rural Development are not clearly defined as the institutional system reflects the policy environment.

All met stakeholders agree that there is a need to differentiate between agricultural and rural development, as different aspects are handled by various departments and ministries.

Various stakeholders have expressed the need that the governmental policies and the overall approach should be improved in order to tackle serious problems in the neglected rural areas and the partially supported agricultural development.

There is consensus on the need for special policy for rural development and resolution of certain aspects lingering between programmes and ministries (agro tourism etc.), which are missing and are not being addressed.

The international community has been providing assistance in an effort to further enhance the development of the agricultural and rural sector. One of the results is the Draft law on Farmer organizations, which was discussed by the parliament recently. However, the discussion has been postponed for the moment.

This is viewed as priority, as the participants in the workshop stressed that there is a need to talk to the farmers (representatives) on improving incomes rather than focusing on food security, if rural residents are expected to remain in the rural areas. Further support should be provided in establishment of representation of farmers on regional levels through definition their legal status through which the farmers can convey their interests.

✓ Regional/Local level

All of the abovementioned state programmes are adopted at national level and they encompass activities, objectives and targets (usually production targets etc.) for the national and regional level. There are no strategic or development documents prepared or adopted at local level. Local authorities are viewed as institutionally weak and lacking in capacity. In general their role is limited to administering of the government policies at local level and collection of information for the respective ministries.

2. Support programs for Rural Development

All agricultural support programs are based on the State support programmes. There is a range of programmes focusing on various aspects of the Azerbaijani agricultural and rural sector. In general funds are directed towards direct production subsidies for selected crops (wheat, sugar beet, cotton) and establishment of state owned entities for service provision, processing, post-harvest activities etc.

Examples for the support programmes under the umbrella State Programme of Poverty Reduction and Economic Development include direct subsidies for crop production (monetary support of approximately 50 USD per Ha, 50 USD/farmer for fuel costs and 50-70% discount subsidy for government procured fertilizers). These measures have resulted with increase in wheat and sugar beet production last years.

Many stakeholders voice the need for support to more crops and in particular added value crops aimed for export. Current policies of import substitution rather than export promotion are viewed as export restricting, with Azerbaijan exporting to only few CIS countries or through Turkish intermediaries⁶.

Another example under the State Program for Regional Socio-economic Development (2009-2013) is the establishment of state owned cooling centres providing services to farmers. Many stakeholders have voiced the need for improved management and the need for introduction of appropriate quality assurance standards of the state collection centres. No support programs dealing with diversification of incomes in rural areas and community level interventions are being implemented at present.

All participants in the workshop agree that there are significant constraints hindering development in the rural areas⁷. As such the investment climate is not good in the rural areas⁸ and special incentives by the Government are needed.

All stakeholders also agree that there is a need for further improvement and enlargement of the state support programmes, in addition to the need for improvement of the institutional capacity of the government services and improvement of the quality of the extension services. Currently donors are addressing some of these constraints⁹.

Many of the stakeholders reiterated that investments application of science and funding for scientific institutions is low and should be improved if development is expected¹⁰.

3. Participation of stakeholders in the preparation of policy documents and support programs

All of the support programmes are prepared mainly using a top-down approach and implemented by the relevant Ministries. The participation of all relevant stakeholders (executive offices, municipalities, science at local level) is assured with circulation of the documents for comments.

Given the fact that a large part of the rural population is unrepresented, there is clear need to improve the participatory process.

4. Statistics used in the preparation of policy documents and support programmes

State statistical committees are preparing the country statistics used for the analysis of the programs. The reports on annual basis are sent to the government and then published as official state statistics. In an effort to improve the documenting of the land area and facilitate the land consolidation 20 regional cadastre offices from recently provide services to rural areas.

⁶ In an effort to tackle the information blackout the Government is at the moment investing in regional MIS centers aiming to provide info to farmers.

⁷ Low quality roads, potable water and drainage systems at times completely lacking in remote areas, there is little or no value added of produce in rural areas, there are significant market related problems, including government set prices for the produces bought by the state owned monopolies, there is produce excess, low access to reliable weather data and forecasts. No information or support for export to foreign markets, limited insurance opportunities for farmers, increasing problems related to land scarcity, salinity and erosion which contribute to low utilization and productivity of the agricultural sector.

⁸ Salary scaled different even between administration officials in urban and rural areas. Phone or internet services are with bad quality and few times higher rates.

⁹ The World Bank supported 10 extension centers however it is not clear how they will proceed in the next period once the financial backing ends.

¹⁰ As example wheat on irrigated land and obtain 3.t t/ha and they could get 5 t/ha.

5. Indicators and targets in the policy documents and support programmes

All programs contain quantitative targets per crop, which allow evaluation of the programme results. The approach used by the Government puts more emphasis on results monitoring and achievement of quantities indicators.

6. Synergies with programmes implemented by other Ministries and other stakeholders

In regards to synergies within the government, meaning the cooperation between different ministries there is the general conclusion that Ministries are aware of the different Governmental programs. However there is no concrete mechanism established of cooperation between the Ministries. Overall there is need for more comprehensive collaboration.

7. Investment support mechanisms and access to credits

Azerbaijan spends some 460 million euro on agricultural subsidies mostly in the form of direct payments and state service providers. In general, none of the programs are based on investment support (co-financing) between the Government and the beneficiaries (communities or producers).

In parallel, the access to credits has been improving in the last few years, partly due to the dedicated state agency dealing with this priority. However, credit access for rural residents is considered as a constraint. Small and subsistence farmers are plagued by repayment terms which are not adjusted to the crop cycles. Lack of collateral and high interest rates (20 and 25%) are also discouraging. There is also lack of information for farmers on access to credit.

8. Institutional setup for agricultural and rural development support

The Ministry of Agriculture implements the agricultural state policy, mostly in relation to agricultural production (primary and processing), services, information dissemination to producers, amelioration and water economy, animal and plant health and soil management, implementation of scientific-technical support policy and food security. The Department for Development of Investments, Programs and Projects is the most relevant policy and programme development unit.

The Ministry of agriculture houses 13 research institutes (sector, wine, wheat, land, livestock etc.). The Institute of Economy and Organization of Agriculture addresses the issues of rural economy. The institutes regularly publish annual reports and recommendations used by all stakeholders for establishment of policies and preparation of the State programmes. The role of these scientific institutions should be enhanced in the analysis and preparation of the State Support Programmes.

The Ministry of Economic Development of Azerbaijan has also important role in designing rural policy of the country and implementation of development initiatives (including tourism). Ministry of Economic development is coordinating health, education and tourism and finances for the support programmes are channelled through the Ministry and in particular the Department of regional development.

Tourism development programs have some effect on rural development on some areas but in general rural and Eco tourism is not included in the programmes.

There is requirement for capacity building/support to the Ministry of Agriculture and other line ministries for improvement of the capacity for preparation and implementation of a specific sector strategy and action plan.

9. Conclusions and recommendations:

- Azerbaijan is interested in participation in ENPARD initiative, including initiatives in bilateral and multi-lateral initiatives. The ENPARD approach could provide further stimulus for reforms in the agricultural and rural sector building on the results of the SPSP programme.
- Rural development although as one of the priorities for the country has not been given the appropriate attention. Although there is a declarative consensus (inclusion in documents, elaboration of semi-specific programmes) on the need for improvement in both government policies and funding for rural development focusing more on the non-agricultural and community related aspects of rural development. However, there is rising awareness about the importance of the sector which might improve the overall situation in the rural areas.
- Beside the fact that Azerbaijan is increasing the support provided to agriculture, the lack of appropriate policies and funding has resulted in limited attention towards rural development and especially income diversification in rural areas.
Therefore, it is recommended that ENPARD support is aimed for financing of support measures within axis 2 type of activities for all rural inhabitants (non-agricultural and subsistence oriented rural residents and communities) and axis one type facilities for (private) agricultural SMEs only. It is unlikely that matching funds will be provided by the Government and therefore the approach should build on investment support to the final beneficiaries.
- ENPARD supported technical assistance should be appropriately used for further capacity building of various stakeholders and awareness rising on all levels, in accordance to already established needs.
- The Ministry of Agriculture and the Ministry of Economic Development are the main institutions operating existing state support programmes and institutional setup, which is structured for provision of direct subsidies to selected agricultural sectors (wheat, sugar beet, cotton etc.) as well as establishment of government owned service providers. An ENPARD, based on wide participation of rural communities in identifying priorities, outcomes and involvement in co-financing would require a widening of the institutions involved at central, regional and local levels.

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Annex 2: Existing Programmes in Agriculture and Rural Development

Government of Azerbaijan

The government since the introduction of the strategy for diversification of economic activities and development of the non-oil sector and the rural regions has designed and started implementing several state programmes. At one point a separate programme tackling Rural Development was proposed, however the proposal was refused by the Ministry of Finance and the MED, concluding that sufficient measures exist under the *State Program for Regional Socio-economic Development*.

- ***The State Programme of Poverty Reduction and Economic Development (SPREAD- 2003-2005) and (2008-2015):***

Implementation of the State Program in 2003-2005 resulted in maintaining overall macroeconomic stability, ensuring dynamic economic growth and holding inflation and national exchange rates at appropriate levels. The Government received credits from the IMF (\$119 million in 2001) and from the World Bank (\$17 million in 2003) for the implementation of the targeted Social Aid Programme. At present over 100,000 households receive such financial aid on a permanent basis. In order to continue the positive process in improving the population's welfare the second stage (2008-2015) State Program on Poverty Reduction and Sustainable Development (SPPRSD) was implemented.

The following strategic goals for the SPPRSD for 2008-2015 were identified:

- ensuring sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector;
- increasing income-generating opportunities and achieving substantial reduction in the poorest sections of the population;
- reducing social risks for old age groups, low-income families and vulnerable groups of population by developing effective social protection system;
- continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs;
- improving the quality of and ensuring equal access to affordable basic health and education services;
- developing social infrastructure, improving public utilities system;
- improving environmental situation and ensuring sustainable management of environment;
- promoting and protecting gender equality;
- continuing institutional reforms and improving good governance.

In regard to issues related mainly to rural development the programme focuses on continuation of institutional reforms aimed at improvement of the efficiency of the agricultural sector, the review of the taxation policies (exempting agricultural producers), promotion of employment and self-employment in the rural areas, and improvement of the access to finance (credits), crop insurance mechanisms, introduction of quality assurance standards, improvement of private veterinary services and the capacity of advisory services.

An example of measures taken within the above-mentioned programme, is the direct subsidy mechanisms for crop production (primarily wheat and sugar beet) with monetary support totalling to approximately \$50 per Ha and \$50 USD per farmer for fuel costs), as well as a 50%-70% discount subsidy for government-procured fertilizers. These measures have resulted in an h increase in wheat and sugar beet production last years.

Many stakeholders voice the need to expand the support programme to cover more agricultural crops and in particular to support crops with added value aimed for export, rather than only for cereals.

- ***The State Program for Regional Socio-economic Development (2004-2008) and (2009-2013):***

In 2003, government of Azerbaijan has announced very valuable and important programme related to regional development. Under this program government intends to achieve an increase in social and economic infrastructure in the regions and in income generating activities of the rural population. One of the activities under the programme was the establishment of state-owned cooling centres providing services to farmers.

- ***“State Programme on Reliable Provision of the Population with Food in the Azerbaijan Republic” (SPRPPF) 2009-2015:***

This is the main policy document related with food security in Azerbaijan. The Implementation Action Plan consists of the following main goals:

- ensuring macro-economic stability and sustainability;
- Improving land and water use efficiency;
- improving crop production;
- improving livestock production;
- strengthening and expanding Agro leasing Company;
- improving state veterinary services;
- improving plant protection services;
- improving energy supply (gas and electricity) for the sector;
- supporting entrepreneurship and agribusiness;
- strengthening food safety services;
- improving food security (emergency situations and food reserves) and
- strengthening research and development system.

EU

The EU-Azerbaijan ENP Action Plan (ENP AP) expired on 31st December 2011. The EU and Azerbaijan have agreed to an open-ended extension, until an Association Agreement, currently under negotiation, is concluded, though negotiations go on slowly. The negotiations on a Deep and Comprehensive Free Trade (DCFTA) could not start as Azerbaijan is not a member of the WTO which is a pre-condition.

1. Agricultural and Rural Development Support Programme – Sector Budget Support

The objective of the program is to promote sustainable agricultural and rural development in order to diversify the economy of Azerbaijan. There are three specific objectives of the Program aiming at prioritizing the Azerbaijani agricultural strategy objectives and linked to the objectives of the "State program on Reliable Food Supply".

- Increase the access to safe quality food
- Stabilise food availability and supply
- Encourage entrepreneurship in the field of agricultural and rural development by improving business environment and institutional capacity.

The expected results regarding the above objectives are:

- Access to safe quality food is increased,
- Food availability and supply are stabilised through improved risk management,
- Entrepreneurship in the field of agricultural and rural development is encouraged by improved business environment and institutional capacity;

Funding	€ 13,000,000 (indicative amount)
Duration	3 years

Starting Date	Expected at the end of 2012
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2. Support the State Veterinary Service Prepare for a National System for the Identification of Animals and Registration of Holdings – Twinning project

Project purpose: Strengthen the veterinary service in general through particular assistance to prepare for a system for the identification and traceability of animals

- **The first component**, Awareness Raising and Reform.
- **The second component**, Development of institutional structure and a Concept for an I&R System.
- **The third component**, Development of the legislative basis and budgetary requirement for the system
- **The fourth component**, Preparation for Implementation. This component would concentrate on preparations for implementation arrangements that would follow-on after the end of the project, and for a programme for the identification of sport and breeding horses.

Funding	€ 1,000,000
Duration	21 months
Starting Date	April 2011

3. EC/FAO Programme on linking information and decision-making to improve food security 2010-2012

The objective of the Program in Azerbaijan is to contribute to government's priority to improve the performance and competitiveness of agriculture, in particular of small and medium farms, as part of the government's strategy to diversify the economy with the development of non-oil sectors. This will be achieved by enhancing the capacity of targeted national institutions, producers, processors and trade associations to collect, analyze and use relevant statistics and analyses to support food security policies and interventions.

Two main areas of intervention have been identified together with national stakeholders as priorities for the Program in Azerbaijan:

- **Development of a Farm Data Monitoring System:** support will be provided to develop the capacity of national institutions, in particular the Ministry of Agriculture (MoA), the Ministry of Economic Development (MED) and the State Statistical Committee (SSC) in collecting, elaborating and analyzing data on farming systems, their efficiency and economic performance, so as to provide concrete elements of orientation and support to policy-makers for designing and implementing food security strategies, policies and interventions.
- **Improving Food Balance Sheets (FBS):** support will be provided to SSC to improve FBS methods and techniques, as well as the quality of information through the design and testing of a field survey, and strengthening capacities of national staff in using FBS to assist policy-makers in developing plans and strategies in the food and agriculture sector.

Funding	€ 3,000,000 divided between 4 countries.
Duration	36 months
Starting Date	January 2010

4. Twinning - Strengthening the Initial Vocational Education in the Field of Agriculture in the Republic of Azerbaijan

The overall purpose is to enhance the institutional capacity of the Vocational and Technical bodies of the Ministry of Education of the Republic of Azerbaijan and the other beneficiary institutions to extend the on-going VET strategy reform to the VET sector of agriculture.

The following results to be achieved by the end of project.

Result 1. A mid-term policy and an action plan for a competency-based VET system in the field of agriculture is established

Result 2. A sample of occupational standards and curricula related with the agricultural economic sector is developed

Result 3. A pilot implementation of formal and non-formal trainings is realised in one or several agricultural VET secondary school(s) and a strategy developed at a school level for ensuring a sustainable implementation

Result 4. Curricula developers, school managers and teachers are trained in order to support the

Twinning project development and disseminate its outcomes

Funding	€ 1,200,000
Duration	21 months
Starting Date	August 2011

5. Enhancing the livelihoods of IDPs in the Goranboy district through tangible agricultural advancement

The overall objective is to contribute to poverty reduction at the regional and local community level in Azerbaijan by enabling the IDPs (Internally Displaced Persons) to achieve sustainable economic development.

The project's specific objective is to strengthen community competence and empower economic viability of the Yeni Veyisili IDP Settlement, aimed at increasing the community's agricultural production capacity through greenhouse agriculture, improving the income potential and employment opportunities for the community members, transferring agriculture and business skills with professional trainings and demonstrations, linking the community with appropriate and realistic markets, and forming valuable ties with surrounding communities.

Expected results: (1.) The establishment of 30 farmers' groups that will stimulate income potential and employment opportunities (2.) 500 direct beneficiaries will improve their management, agricultural, agribusiness, marketing, and leadership skills and competencies (3.) 30 greenhouses are built and agricultural production is increased (4.) Provision of technical assistance to 500 members of farmer groups (5.) Farmers are connected with appropriate markets.

Funding	EU contribution 209,000 € (out of a total of 234,000)
Duration	18 months
Starting Date	End of 2011

6. Improving capacities to eliminate and prevent recurrence of obsolete pesticides as a model for tackling unused hazardous chemicals in the former Soviet Union (implemented by FAO)

Overall Objective:	Contribute to the reduction of risk to public health and the environment from pesticides in the ENPI East Region, Russian Federation and Central Asia Countries (CACs)
Project Outcomes:	Management of obsolete pesticides and contaminated materials; Strengthening of pesticide management; Cross-cutting / Regional initiatives; Programme / Project management Monitoring and Evaluation.
Project Outputs:	<p>1.1. Inventory of obsolete pesticides and associated wastes; 1.2. Environmental Risk Assessment and prioritisation of risks to public health and the environment; 1.3. Safeguarding of obsolete pesticides at high risk locations; 1.4. Environmentally sound disposal of safeguarded stocks according to the requirements of the Basel and Stockholm Conventions;</p> <p>2.1. Review of pesticide legislation and regulatory framework; 2.2. Analysis of pesticide life-cycle and identification of barriers to effective management; 2.3. Promotion of lower risk alternatives to Highly Hazardous Pesticides (HHPs); 2.4. Development of communications and awareness materials for use at national level;</p> <p>3.1. Coordination, communications, advocacy and fund raising; 3.2. Assessment of regional disposal capacity for hazardous waste management; 3.3. Training on pesticide life-cycle management; 3.4. Development and dissemination of technical guidelines on pesticide and obsolete pesticide management.</p> <p>4.1. Programme management (strategic level coordination of partner inputs); 4.2. Project management (day-to-day management of implementation of activities at country level and for cross cutting outputs).</p> <p>5.1. Monitoring and Evaluation at programme level (to include annual reporting to donors; coordination of reporting for EC and co-finance inputs etc) plus the independent evaluation of progress and impact at mid-term and end of project; 5.2. Monitoring and Evaluation at country level and for cross cutting outputs (to include tracking of expenditure and implementation progress compared to agreed work plan).</p>

Funding	EU contribution: € 6 million
Duration	48 months
Starting Date	01/01/2012

7. Planned programmes (under preparation)

AAP2011 Rural Development Support Programme € 19.5m

Purpose	The two specific programme objectives are (1) rapid development of the labour
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	and entrepreneurship potential in the rural areas, able to meet demand of rural businesses to accelerate their integration in the world economy; (2) MoED coordinating rural development effectively and efficiently.
Status	Financing Agreement currently under preparation, awaiting GoA signature and request for first payment

AAP2013 Support to Regional and Rural Development in Azerbaijan (SRRD) € 10m

Preliminary Objectives	The overall objective of the programme is to support the GoA's efforts in the diversification of the economy and sustainable developments of the regions. The <u>specific objectives</u> of the programme are: <ol style="list-style-type: none"> 1. To establish a pilot scheme for the promotion of community-based rural and regional development programmes generated at the local level; 2. To strengthen national and local authorities' capacities to plan, implement and administer programmes directed to enhance socio-economic development of regions; 3. To support respective institutions in the prioritization, identification and appraisal of large investment projects that might be further financed through state budget or through an innovative financial blending mechanism.
Status	In the identification process.

IFAD

The goal of IFAD's strategy in Azerbaijan is to support the government's efforts to reduce poverty substantially and improve living conditions for disadvantaged rural communities. IFAD provides support within the overall framework of the State Programme for Poverty Reduction and Sustainable Development, and in particular for the development of rural areas and for agriculture as a dominant force in the rural economy. IFAD is mainly collaborating with the State Agency for Agricultural Credits under MoA. From 2003 up to date IFAD has provided and currently provides four different development projects in rural areas of Azerbaijan: the Farm Privatization Project, the Development of Mountainous and Upper Mountainous Areas Program, the Rural Development Project for the North-West and the North-East development project.

- ***Rural Development Project for the North-West***

US\$ 32.3 million IFAD-supported project in Azerbaijan will help 22,300 rural poor households increase their incomes, achieve food security and contribute to boosting the country's economy. Total cost of the project is \$32.3 million and IFAD will provide \$17.2 million (loan in concessional terms) for the project (duration of the project is 2009-2014).

- ***North-East development project***

The project is located in a region that has a particularly high incidence of rural poverty. In 2002 an estimated 58 % of the local population was poor, and one quarter of them were extremely poor. Total project cost is \$25.1 million, The IFAD loan amount is \$12.6 million. The overall project goal is to improve living conditions for households that depend on irrigated agriculture in the target area, by supporting increased food security and income-generating opportunities. The project is providing technical assistance to Business Development Centres in target region. For example, in Siyasen district a Community Development and Business Information Centre was established and it is providing information, advisory and other related services to local farmers and entrepreneurs.

World Bank

World Bank is the main financial institution supporting Azerbaijan Government in the provision of structural reforms, big infrastructure investments and rural development programmes. Cooperation of the Government with the World Bank started from 1995 and since then 14 different projects have been financed. The total cost of projects is more than \$600 million. The World Bank provides substantial financial support to the Government in the implementation of big infrastructure projects as the Rehabilitation and Completion of Irrigation and Drainage Infrastructure Project, The Second Highway Project in the Azerbaijan (total cost – \$505 million) and Rehabilitation of Highway Hacigabul-Bahramtepe. These infrastructure investments create suitable circumstances for economic development in rural areas.

- ***Azerbaijan Rural Investment Project***

AzRIP is a project established and funded by the Government of Azerbaijan and the World Bank and implemented by the State Agency on Agricultural Credits under the MoA. To invest in the rural development of Azerbaijan, particularly targeting community based infrastructure investments. The first phase of the project started in 2004 and finished in 2008. The second phase is planned for five years (2009-2013). Total project budget is \$46.6 million.

The objectives of the Rural Investment Project (AZRIP) in Azerbaijan are to improve living standards through improved access to infrastructure services for households in rural communities completing micro-projects. The project has contributed to an improvement in the living conditions of households in rural communities by: (a) facilitating participatory development planning, thereby enhancing capacity to address needs; and (b) providing and rehabilitating priority rural infrastructure identified by the rural communities.

FAO

FAO is providing technical assistance to Ministry of Agriculture in providing institutional reforms, capacity building activities to main stakeholders in applying new technologies and direct implementation of development program and projects.

Some projects are focused on specific topics with the main idea to provide technical assistance on particular issue for government agencies and experts. For example, Strengthening the Trans Boundary Animal Disease Diagnosis, Surveillance and Control Capacities Project is aiming to protect livestock production and productivity and to foster domestic, regional and international trade in animals and products. The Assistance for the Establishment of a Farm Data and Monitoring System project supported agricultural stakeholders in the elimination of the foot-mouth disease and other dangerous diseases in livestock.

FAO in Azerbaijan has also implemented the Capacity Building in Rural Development for Internal Displaced Person (IDP) and Refugees in New Settlements of Aghdam District Project with the main purpose of supporting IDP farmers dealing with vegetable production. The pilot phase of the project has finished in 2008 and next phase – the Consolidation Phase - was launched in 2009. The project is considered for 2009-2012 years and funded by the Swiss Development Corporation (SDC) with a total budget of \$1.750.000. The main idea of the project is to provide capacity building activities to vegetable producers by organizing Farmer Field Schools and Farm Business Schools. To achieve sustainability of project results it is considered to support leading farmers by small grants and link them to Business Consulting Centres existing in the region. In current phase, three Business Consulting Centres have been selected as a result of tender procedures.

USAID

USAID has made significant investment in the agricultural and agribusiness sector to ensure this critical segment of society receives the appropriate inputs, technology, information and training to be competitive in world markets and be provided with sustainable job opportunities.

For instance, under *Agricultural Business Assistance and Development Project* Business Development Resource Centres have been opened in each of nine economic regions of Azerbaijan. The Centres serve as the focal point for micro and small enterprise development by assisting members to establish market linkages, offer training and technical assistance, link rural business to markets and other economic opportunities, and provide grants to community organizations for viable income generating activities.

USAID has also supported increasing rural incomes through its *Rural Enterprise Competitiveness Program* by enhancing and strengthening free market orientation through a variety of activities aimed at promoting entrepreneurial business skills, the four-year project will foster quality standards, collect and disseminate useful data on agricultural production, market conditions, and trade opportunities, and provide management training.

Besides, USAID plays important role in community development of rural areas of Azerbaijan. For instance, it was implemented *Community Development Activity*, a five-year (8.5 Million USD) program operating in 14 of Azerbaijan's 66 rayons (districts) during previous years. The primary focus of the program was to increase collaboration between citizens and local government; increase citizen participation in local decision-making and increase economic opportunities for citizens.

Another project - *Socio-economical development activity (SEDA)* aims to contribute to the advancement of the socio-economic development at the regional level in Azerbaijan by providing support for community-driven infrastructure projects and strengthening stakeholder participation in setting priorities for socio-economic strategies and programs in the regions that SEDA will target and beyond. The program is co-financed by the Government of Azerbaijan.

One of the most important projects supported by USAID was “Supporting Azerbaijan’s accession to the World Trade Organization through diversifying its exports” project. By helping Azerbaijan accede to the World Trade Organization (WTO) and supporting business climate reform, the Azerbaijan Trade and Investment Reform Support Program helped encourage economic growth through increased trade & investment in the non-oil sector.

Azerbaijan’s economy has surged mainly due to its oil exports, however, trade and investment in non-oil and gas sectors of the economy had been lagging, due to policy and regulatory distortions and a poor business enabling environment. The USAID Trade and Investment Reform Support Program in Azerbaijan (TIRSP) helped Azerbaijan improve its business climate and primed the country’s economy so it could benefit from integration with the global economy.

TIRSP provided technical assistance and training to accelerate the accession of the Government of Azerbaijan to the WTO. The program worked with the government to design accession-related legislative packages in areas such as customs valuation, rules of origin guidelines, tariff bindings, import/export control requirements, trade remedies, SPS-related legal and policy reforms, service sector market access, public procurement reforms and general subsidy/countervailing duty legislation, among others.

SDC

The Swiss government through Swiss Development Agency (SDC) currently, supports Rural Development in two regions of Azerbaijan. With overall budget of 6 million CHF both projects apply the “*Market for the poor*” approach with the aim to support most vulnerable rural farmers to better analyze the value chain and improve their access to markets.

