

Strategy for development cooperation with

Southern Caucasus

January 2006 – December 2009



REGERINGSKANSLIET

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Strategy for development cooperation with Southern Caucasus, 2006–2009

Introduction

The strategy will determine the direction of Swedish development cooperation with the three countries of Southern Caucasus, focusing in particular on Georgia, for the period 1 January 2006–31 December 2009. The document also includes a regional component. The strategy is based on a proposal from the Swedish International Development Cooperation Agency (Sida), supplemented by the Ministry for Foreign Affairs' own considerations and by comments from other ministries, government agencies and Swedish actors involved in development cooperation with Southern Caucasus. The formal basis for the strategy is Sweden's Policy for Global Development (Govt. Bill 2002/03:133, Committee Report 2003/04:UU3, Riksdag Communication 2003/04:112), adopted by the Riksdag, and the Government Communication on Swedish development cooperation with the countries of the Commonwealth of Independent States (CIS) and in the Western Balkans (Govt. Communication 2004/05:109 and Committee Report 2004/05:UU12).

The overall objective of Sweden's Policy for Global Development is to help bring about fair and sustainable development worldwide. This objective applies to all policy areas. Swedish development cooperation is to focus principally on poverty reduction and respect for human rights.

Summary

After many years of stagnation, Southern Caucasus has experienced a more dynamic period of political and economic development since the autumn of 2003. The change of government in Georgia in 2003 significantly altered the situation in the region, opening up new opportunities for democratisation and stabilisation.

It is vital that the EU display both a clear interest in the states of Southern Caucasus and an unequivocal commitment towards them. In time, closer ties with the EU can lead to greater stability and less poverty in the region, and this integration perspective should provide a framework for Swedish development work with the countries concerned. In June 2004, Southern Caucasus was included in the European Neighbourhood Policy (ENP), the EU initiative aimed at strengthening relations with the countries along the Union's new eastern and southern borders. This is a step forward and provides an important framework for EU's relations with the region. The countries of Southern Caucasus share a common background as former members of the Soviet Union with the Baltic States. The latter's experience of transition and EU alignment, therefore, is of major interest to Southern Caucasus, and this should be turned to account by pressing for increased tripartite cooperation.

The new Georgian government's reform and development policies have created new opportunities for deeper Swedish development cooperation with that country

– and for closer Georgian ties with the EU. It is vital that the country is reintegrated into the European structures. As a result of the Rose Revolution, Sweden has undertaken to double its development assistance to Georgia. Swedish programmes and projects are to have two main goals: enhanced democracy and greater respect for human rights, and sustainable economic development, primarily in agriculture, focusing particularly on opportunities for poor women and men to support themselves.

The will to implement political reform in Armenia and Azerbaijan appears to be limited. Development cooperation with these countries, therefore, should again be limited in financial scope and should focus mainly on creating conditions for democratic governance and promoting respect for human rights. Sweden should, however, be prepared to strengthen its commitment in these countries should the prospects for reform work improve significantly.

The goal of regional measures is to promote dialogue and peaceful coexistence among the countries of the region. Programmes may be supported in areas where there is a concrete need of assistance and a genuine interest in exchange between countries.

1. Background

Southern Caucasus comprises Georgia, Armenia and Azerbaijan. All three became independent states following the disintegration of the Soviet Union, and have a number of problems in common. They are poor countries in need of development in many areas, and a distinguishing feature of all three is that resources are unequally distributed. Some of the problems are connected with the transition to a market economy, while others date further back in time or are rooted in regional differences. There are both internal and external conflicts in the region. Even before independence, conflicts with ethno-political dimensions developed in the Nagorno-Karabach region – situated in Azerbaijan but primarily populated by Armenians – and between the Georgian government and the breakaway regions of Abkhazia and South Ossetia, which both want independence. The conflicts have claimed many lives and turned 1.5 million people into refugees. Damage to infrastructure has been extensive. At present, the conflicts remain frozen, i.e. a ceasefire is being observed but no peace agreement has been signed. Consequently, the governments of Georgia and Azerbaijan lack control of large sections of their territory, while the separatist movements that have control on the ground are not recognised by the international community.

Since the autumn of 2003, after many years of stagnation, political development in Southern Caucasus has been more dynamic and economic development more sustainable. The change of government in Georgia in 2003 marks one of the most important new developments in the region, and in the long term may transform it economically and politically, on condition that the reform process now under way continues. There are fewer signs of reform in Armenia and Azerbaijan, although there are growing demands for change among the population. The various unresolved conflicts, however, still represent a major obstacle to political,

economic and social development in the region. These have deprived large sections of the population of the chance to support themselves and have forced them to live in refugee camps under harsh conditions. The conflicts have adversely affected the countries' economies by hampering trade and investment. They have also led to an increase in corruption and organised crime, and have had a negative effect on the democratic process. The combination of economic recession and ethno-political conflict has further impoverished about half the population of Southern Caucasus in a short space of time. Personality cults dominate the political systems of all three countries. Security in the region is greatly affected by the interests of external powers, particularly those of Russia, the US, Iran and Turkey, as well as by unrest in the immediate vicinity.

In June 2004, Southern Caucasus was included in the European Neighbourhood Policy (ENP), the EU initiative aimed at strengthening relations with countries along the Union's new eastern and southern borders. The countries in the region have expressed a desire to strengthen relations with Europe, and they view closer integration with the EU as a much-needed engine of political and economic development. Their inclusion in the ENP, therefore, is a major step forward and provides an important framework for EU ties with the region.

The European Commission supports Southern Caucasus via a number of different instruments, at both national and regional level. Regional support is provided, for instance, to interventions relating to border and migration issues and environment issues. The Commission also provides humanitarian relief, supports the development of democracy and human rights, and works to improve the food supply and rehabilitation programmes. In Azerbaijan, national funding amounts to EUR 7.5 million per year and is directed at institutional, judicial and administrative reform, and at supporting the private sector and economic development. Armenia receives EUR 5 million per year for institutional, judicial and administrative reforms and to help offset the social consequences of the transition to a market economy. After the Rose Revolution in Georgia in 2003, the Commission doubled its support to the country, from EUR 6 million to EUR 12 million per year. As in Armenia's case, the funding was for institutional, judicial and administrative reforms and to help offset the social consequences of the transition to a market economy.

Sweden's long-term development cooperation with the Southern Caucasus began in 1998 with limited assistance totalling SEK 23 million per year. Since then, disbursements have gradually increased. During the previous strategy period (2003–2005), they totalled approx. SEK 205 million for the region as a whole. Of this, approx. SEK 87 million went to Georgia, SEK 45 million to Armenia, SEK 15 million to Azerbaijan and SEK 58 million to regional interventions.

2. Other policy areas and relations between Sweden and the countries of Southern Caucasus

The present strategy specifically addresses Sweden's development cooperation activities vis-à-vis Southern Caucasus. Swedish policies and activities in other policy areas are also important for relations with these countries and for

development in the region, even if they are not financed via the central government budget allocation for international development cooperation. This strategy, therefore, must reflect the whole picture, i.e. including all development assistance provided to the countries concerned by Swedish business, Swedish organisations and other actors in Swedish society.

Swedish development efforts in the region are to a great extent undertaken within a multilateral framework, or as an extension of the work of multilateral organisations. Some of the most important among these are: the EU, the Organisation for Security and Cooperation in Europe (OSCE), the Council of Europe, and the Partnership for Peace (PfP). Both Sweden and Georgia are active in various multilateral forums dealing with environment issues. One way of taking matters forward is by engaging in tripartite cooperation, where Sweden and a second country, such as one or other of the Baltic States, help new countries with their democratisation and development processes. Sida has a general mandate to promote cooperation of this kind. Sweden is currently involved in an aid-financed tripartite cooperation programme with Southern Caucasus focusing on penal care reform, aviation standards and the provision of guidance to rescue services.

Swedish business activities in the region have been very limited and have mainly focused on telecommunications and the agro-industry. There is little trade exchange with the region. In the longer term, however, there are signs that this may increase. Armenia and Georgia are members of the World Trade Organisation (WTO), and Azerbaijan has applied for membership.

By developing our relations, we can contribute to the transfer of knowledge and expertise in areas conducive to progress in the region. Broader contacts foster democratic development in Southern Caucasus. Sweden is establishing a new honorary consulate in Yerevan, to supplement the ones already in place in Tbilisi and Baku.

Hitherto, exchange visits and political dialogue with the three countries have been fairly limited. However, both sides are interested in remedying this situation, and the number of visits is increasing. Georgia's president visited Sweden in the summer of 2005.

Cultural exchange, education and tourism are other areas in which cooperation is limited but where broader cooperation would have a favourable impact. Media interest in the region has also increased.

3. Georgia

3.1 Summary of poverty analysis

Economic growth in Georgia has been strong in recent years, increasing from approx. 5 per cent in 2002 to 9 per cent in 2004. However, growth has been limited to a small number of sectors and has had few knock-on effects for the economy as a whole.

Official statistics show that over 52 per cent of the population are impoverished, with an income of less than USD 2.30 per person/day. Of this total, 15 per cent live in extreme poverty. In 2004, Georgia's GDP per capita was USD 897, i.e. roughly the same as for Nicaragua.

Half of the country's labour force works in agriculture, which is Georgia's largest industry, accounting for 20 per cent of GDP. Seasonal earnings in the agricultural sector are the most important source of income for the poorest members of the population. In the Soviet Union, Georgia was one of the most important suppliers of agricultural produce. Today, Russia still represents the largest market for these products. Trade with the EU is limited. The difficulty of achieving sustainable economic growth in agriculture is due to a lack of access to credit, technology and markets. Progress in the agricultural sector, therefore, is expected to have a favourable impact on poverty.

However, poverty is at its worst in urban areas, and increasing migration to cities has placed a further strain on municipal resources, which are already deficient. Besides inadequate municipal capacity, the lack of infrastructural investment and maintenance and substandard payment frequency are both major problems. This has resulted in such things as a widespread lack of water supplies and inadequate waste management. Lack of water particularly affects poor people and leads to a serious risk of infectious disease and child mortality. The situation is particularly serious in the case of internally displaced persons. Insufficient access to health and medical care strikes hardest at the poor. The proportion of people in Georgia infected with HIV/AIDS, however, is comparatively small.

Unemployment is widespread, but since the average income is below subsistence level, paid work is no guarantee against poverty, either. On average, women's pay is half that of men. Economic development is hampered by widespread corruption, a complicated tax system, limited access to credit and inadequate protection for property ownership and land rights. The informal sector is extensive.

Georgia's national strategy for combating poverty, the Economic Development and Poverty Reduction Programme (EDPRP), was adopted in 2003 after a process characterised by broad participation. The goal of this strategy is to bring poverty down to 20–25 per cent and extreme poverty down to 4–5 per cent by 2015. To this end, the following priorities have been specified: better governance, macroeconomic stability, institutional and structural reforms for promoting entrepreneurship, better social safety nets, the development of human resources through health care and education, the development of priority areas in the economy such as energy, transport, industry, tourism and agriculture, environmental improvement, socioeconomic rehabilitation of post-conflict regions, and technological development. The strategy is deemed to be well in line with Swedish priorities and provides a sound basis for future development cooperation. The present government has accepted the main features of the document but places greater emphasis on economic growth through extensive privatisation and a more thorough reform of the state apparatus. The government is to draw up an action plan that reflects its reform efforts and that brings its poverty reduction programme into line with the strategies for closer integration

with the EU and NATO. It has also expressed a firm desire to strengthen Euro-Atlantic relations, and views closer ties with the EU as an engine of democratic and economic development. The inclusion of Georgia in the ENP was therefore a major step forward for the country.

The peaceful revolution and the commitments made by the new government have improved the prospects for democracy. Despite the progress that has been made, however, important challenges remain in the democratic sphere. The new government has inherited an oversized and inefficient state apparatus. The widespread appointment of young and sometimes inexperienced people to the administration represents a serious challenge. The capacity of the state apparatus is generally weak, decision-making is largely centralised and human rights are not properly protected. A weak opposition, a poorly developed party system, a media that is partially state-controlled and a civil society that is still relatively undeveloped all hamper the development of democracy and respect for human rights. Opportunities for women to take part in political processes are limited and ethnic minorities are largely marginalised.

A general problem from a development cooperation viewpoint is that there are major shortcomings in several sectors as regards coordination and harmonisation. The government says it is aware of these problems and intends to take a number of steps to improve the situation, including drawing up a national policy for coordination and harmonisation. The government has accorded top priority to the fight against corruption and has implemented reforms that are expected to improve financial management. It has also reduced red tape, initiated a reform of the wage-setting system for government officials, launched reforms of the tax system and strengthened control of the customs and tax authorities. As a result, it has succeeded in boosting tax revenues, and has also formalised parts of the informal sector and increased transparency in public finances. All these measures have helped to strengthen the prospects for effective development cooperation in the years ahead.

3.2 Cooperation in 2003-05: Conclusions

The goals of Swedish development cooperation during the previous strategy period were to create the necessary conditions for poverty reduction and conflict prevention, to help build up democratic public structures and an efficient state apparatus, and to promote respect for human rights. The main focus was on the latter objective. A number of other donors are also financing initiatives in this area.

The Swedish development cooperation programme has helped enhance democracy and respect for human rights in Georgia. It has enabled the public administration to hire skilled staff, it has contributed to the fight against corruption and it has strengthened the ombudsman system. Swedish assistance has also been used for the purpose of organising seminars at which various public actors can meet. Together with interventions aimed at strengthening civil society in Georgia, especially women's organisations, this has generated a higher level of active participation and a greater awareness of the importance of human rights in a

democratic society. Gender equality projects targeting decision-makers have enhanced this group's understanding of the need for equality between the sexes, and the benefits involved, and have also strengthened the resolve of institutions working in this field. Special efforts have been made to strengthen dialogue and to help people arrive at a better understanding across conflict lines.

A significant number of these initiatives have been implemented jointly with the UNDP. It should be possible to make such joint action more effective by switching to programme cooperation based on a set of common values. Areas in which Sweden could contribute valuable experience include gender equality, the strengthening of the ombudsman system and the development of local democracy.

Cooperation in the land surveying sector has helped to make property registration more efficient. In the health sector, people have gained better access to medical care as a result of development initiatives aimed at improving management at some of the country's hospitals.

Cooperation in the agricultural sector has been confined to a dairy project that overcame some teething troubles to give the farmers involved higher incomes. Experience shows that training initiatives in the agricultural sector achieve the best results when combined with support in the form of equipment. There is an explicit demand for further cooperation in this sector. Since needs are great, poverty is widespread and the number of donors is relatively small, the agricultural sector is seen as a promising area for future development cooperation.

The revolution in Georgia has created fresh opportunities for Swedish development cooperation in the country. In the short-term, however, new priorities and extensive restructuring of the government and public administration have delayed some scheduled activities and made others irrelevant, e.g. activities in the employment and social sectors. Inadequate donor coordination and continuing uncertainty over the government's priorities in several sectors have hampered efforts to move towards greater concentration and broader initiatives.

As of March 2004, the coordination of interventions in Southern Caucasus is undertaken via an office in Tbilisi, led by a consultant. This has improved conditions for development cooperation, both bilaterally and in terms of coordination with other actors.

Promoting cooperation between organisations in Sweden and Southern Caucasus with a view to strengthening civil society has proved difficult. A major reason for this is that interest and/or capacity among the Swedish organisations has been very limited.

3.3 Other donors

After the revolution in Georgia, the entire donor community, including Sweden, agreed to substantially increase its involvement in the country. Among bilateral aid donors, the US is in a class of its own, with activities in such areas as business development, energy and good governance. The planned increase in Swedish development cooperation will place us on a par with the medium-sized bilateral

donors Germany, the Netherlands and the UK. Of the various multilateral donors, the EU is conducting extensive programmes targeting judicial and administrative reform and the development of the rule of law, while the World Bank and the European Bank for Reconstruction and Development (EBRD) are active in such areas as infrastructure, environment and business development. The World Bank plans to step up its rate of payment in Georgia to assist the new government in its reform efforts. As there are numerous donors in sectors such as business development, energy, health and infrastructure, Sweden should focus its efforts on other areas of priority to Georgia. One area in which Sweden has experience and which is of considerable importance both for poverty reduction and for closer integration with the EU is the agricultural sector. Several donors support the government's efforts to promote democracy, but only limited resources are available in the gender equality field. It should be possible to make use of Sweden's experience in this area.

The OSCE (Organisation for Security and Cooperation in Europe) has a mission in Tbilisi that organises activities within the wider security framework. The OSCE is working with Georgia to train border police and deal with security matters, but is also cooperating on institutional capacity development, human rights, democratisation and conflict resolution.

Southern Caucasus is encompassed by the Early Transition Countries Initiative (ETC) run by the EBRD, and the bank will therefore be stepping up its activities in Georgia during the strategy period. This will create a number of opportunities for co-financing, e.g. with regard to water projects. The EBRD invests primarily in infrastructure, power production and the private sector.

3.4 Aims and objectives of development cooperation with Georgia

The aim of Sweden's development cooperation with Georgia is to create the kinds of conditions that enable poor people to improve their lives.

At the core of poverty lies a lack of both material assets and power, which deprives people of the chance to decide over their own lives. Economic growth is essential as extensive material poverty cannot be combated without a powerful increase in resources. In rural areas, people largely rely on agriculture for their upkeep, and poverty can be reduced by improving the means of subsistence for those working on farms. This sector is of vital importance both from a poverty alleviation viewpoint and for EU integration, and is one of the Georgian government's priorities. Economic growth, however, is not enough in itself, as poverty is also about both lack of power and the absence of free choice. A democratic system of government characterised by respect for human rights empowers vulnerable people and enhances security in society. Democratisation and greater transparency are also of key importance in the fight against corruption and helps more people to share in the benefits of economic growth. Based on the priorities of the Georgian government, on the poverty analysis, on experience of Swedish interventions in the country and on the activities of other donor organisations, Swedish development cooperation with Georgia will have two interim goals:

- enhanced democracy and greater respect for human rights, and
- sustainable economic development, primarily in agriculture.

Sweden must harmonise its development cooperation programme with the action plan for poverty reduction and EU integration that the Georgian government intends to draw up. Closer cooperation must be sought with the Commission. Development cooperation in high priority areas must be harmonised with the ENP and with the future action plan for Georgia, and must seek to support its instruments as they develop. Sweden must seek to make its cooperation effort more efficient by co-financing with other donors.

Programmes and projects must be designed in such a way as to help Georgia align its institutions, laws and regulatory frameworks with the EU. During the strategy period, the conditions for future budget support to Georgia will be examined, taking into account the current review of how public finances in the country are controlled. Opportunities for promoting greater exchange between Sweden and Georgia in the two principal areas of development will be turned to account. Tripartite cooperation is to be encouraged.

Development assistance to Georgia will be more than doubled and should amount to some SEK 100 million per year at the end of the strategy period. This sharp increase will be made possible by increasing Sida's field capacity, by concentrating interventions and by stepping up cooperation with other donors.

3.4.1 Enhanced democracy and greater respect for human rights

Objective: Enhanced capacity in public institutions promoting democratic and effective governance, by means of efforts to:

- give citizens greater access and influence in political processes,
- ensure that the differing needs of men, women and minorities are taken into account in political processes,
- strengthen the capacity and improve the organisational efficiency of ministries and government agencies at different levels,
- support the government's reform initiatives and anti-corruption measures,
- support moves on the part of public institutions to mainstream a gender equality perspective into political processes,
- bring civil society more fully into political processes,
- support the emergence of free media, and
- support the development of local democracy.

Objective: Greater respect for human rights by means of efforts to:

- heighten public awareness of human rights and the need for gender equality between women and men, girls and boys,
- enhance the capacity of public institutions to ensure compliance with human rights,
- support institutions that monitor compliance with human rights, such as the ombudsman system,
- enable people to demand compliance with human rights and to
- create free media.

Where possible, these initiatives should be undertaken jointly with other donors. Programmes and projects must be conflict-sensitive, i.e. they must be analysed from a conflict perspective to ensure that they do not adversely affect the course of events. Cooperation efforts must also seek to promote peaceful coexistence. This also applies to initiatives where this is not the main objective. In addition, support may be given to specific initiatives whose main purpose is to encourage solutions to current and potential conflicts.

3.4.2 Promoting sustainable economic development

Objective: Sustainable economic development in agriculture, thereby creating greater opportunities for poor men and women to support themselves, by means of initiatives that:

- strengthen knowledge and understanding of farming practices and entrepreneurship among producers,
- strengthen the capacity of government agencies to promote sustainable economic growth in agriculture,
- improve education and training in the agricultural sector, and
- help bring agricultural institutions, standards and rules into line with the EU.

Agriculture is a sector with export potential and is profoundly affected by the EU integration process. For the many poor people working in this sector, the transition to a market economy and closer ties with the EU will entail risks but also present opportunities. Cooperation should proceed from a sectoral perspective and be pursued jointly with other donors. Agricultural initiatives should be designed in such a way as to promote economic cooperation over conflict lines and, where possible, should also be located in potential conflict areas.

In addition to these initiatives, support may also be provided to environmental projects such as water supply and water and sewage treatment, waste management and energy efficiency, as part of internationally coordinated programmes.

Opportunities for promoting greater exchange between Sweden and Georgia in the two principal areas of development will be turned to account. Tripartite cooperation is to be encouraged.

3.5 Dialogue issues

As part of the democracy programme, every opportunity to engage in dialogue on human rights, peaceful conflict resolution and gender equality should be exploited. Civil society is an important partner in this respect.

4. Armenia

4.1 Summary of poverty analysis

Armenia has experienced very rapid growth in recent years. The country's GDP per capita in 2004 amounted to USD 975, which is about the same level as that of Honduras and Sri Lanka. In both 2002 and 2003, annual growth was over 13 per

cent. Growth has largely been driven by extensive investments on the part of the Armenian diaspora. The knock-on effects for the economy in general, however, have been limited, and income inequality is very pronounced. Tax revenue has not kept pace with GDP, which has limited the state's ability to redistribute wealth and provide basic public services and infrastructure.

Access to health and medical care has drastically declined for the poor section of the population. The prevalence of HIV/AIDS is, however, comparatively low.

It is estimated that about half of Armenia's population live on less than USD 2 per day. Opportunities for earning a living are seasonally dependent and are harder to find in the winter months. Weak groups living in earthquake areas are particularly vulnerable. The situation is worst in rural areas, and a large part of the population has been forced to leave the country. The unresolved conflict with Azerbaijan has had a negative impact on trade in the area.

In 2001, Armenia adopted a wide-ranging, result-oriented poverty strategy, the Poverty Reduction Strategy Paper (PRSP). It has five priority areas: promoting sustainable economic growth through macroeconomic stability and private sector development; enhancing human development and strengthening social safety nets; implementing prudent fiscal policies and reforming the tax system; improving public infrastructure; and improving core public sector functions.

One area, however, which is not covered in any great detail in the PRSP is democracy and human rights. According to the Council of Europe, there are considerable problems as regards human rights in Armenia. In 2002, Armenia ratified the European Convention against Torture and the European Convention for the Protection of Human Rights and Fundamental Freedoms. However, there is still a lack of awareness about, and respect for, human rights in Armenia – as well as inadequate systems for ensuring that citizens are able to enjoy these rights – a lack of gender equality, corruption, a weak opposition and inadequate freedom of the media.

4.2 Cooperation in 2003-2005: Conclusions

Sweden's cooperation with Armenia was so limited in scope during the previous strategy period that it is difficult to draw any firm conclusions about the outcome. Initiatives in the statistical, land surveying and employment sectors have helped to make the work of the Armenian authorities there more efficient. Client ownership is deemed to have been particularly strong in respect of employment and statistics. A pilot project in the social sector undertaken jointly with the World Bank has been terminated due to revised priorities. Cooperation with the World Bank in forestry development has demonstrated the importance of close coordination. Dialogue with the World Bank should be strengthened during the coming strategy period. A pilot project involving the dissemination of information about the harmful effects of narcotics has been much appreciated.

Although these initiatives have met a favourable response, they are to be phased out due to a stronger emphasis on sectoral concentration in development cooperation with Armenia.

4.3 Other donors

The World Bank is the largest multilateral donor in Armenia. Sida has financed a small part of the World Bank's extensive Natural Resources Management and Poverty Reduction GEF Project. The US is the predominant bilateral donor. In addition to USAID, the Millennium Challenge Corporation is expected to become one of the largest donor organisations over the coming years.

The OSCE has offices in the country and runs two major projects. One of these is a police programme aimed at strengthening police training and developing a community police model, while the other involves the management of rocket fuel.

Armenia is encompassed by the EBRD's Early Transition Countries Initiative (ETC), which means that the bank is expected to step up its activities during the strategy period. The EBRD invests primarily in infrastructure, power production and the private sector. The UNDP works with democratic governance, human rights, the prevention of HIV/Aids, and information and communications technology.

Besides the multilateral and bilateral aid organisations, there are a number of diaspora-based organisations in the country.

4.4 Aims and objectives of development cooperation with Armenia

The aim of Sweden's development cooperation with Armenia is to create the kinds of conditions that enable poor people to improve their lives.

Sweden's main objective in Armenia is to support the democracy process and to enhance respect for human rights. , and it is to be guided in this work by the perspective of the poor. Sweden will strive for harmonisation and seek opportunities for co-financing with other donors. Initiatives are primarily to be channelled via a small number of actors and donors with a local presence and a strong capacity for dialogue. Support should primarily be directed at public structures such as the ombudsman system, but supplementary initiatives may also target civil society. Values such as democracy, human rights and gender equality are key dialogue issues. Opportunities for dialogue should be exploited in connection with the annual review of the cooperation programme.

Initiatives currently in progress in the fields of statistics and employment will gradually be phased out during the strategy period. Scope should be provided for supplementary initiatives in the forestry sector and for initiatives aimed at improving land use planning. These initiatives are to be planned in close cooperation with the World Bank. Support may also be given to environment projects falling within the framework of the Swedish government's expanded environment programme. Such initiatives are to be undertaken as part of internationally coordinated programmes.

Programmes and projects must be designed in such a way as to help Armenia align its institutions, laws and regulatory frameworks with the EU. Opportunities for tripartite cooperation should be exploited.

Under present circumstances, development cooperation with Armenia is expected to remain at the current level, i.e. at about SEK 20 million per year. Sweden should, however, be prepared to increase its commitments in the country should the prospects for reform work improve significantly.

4.4.1 Enhanced democracy and greater respect for human rights

Objective: Enhanced capacity in public institutions promoting democratic and effective governance, through efforts to:

- give citizens greater access and influence in political processes,
- ensure that the differing needs of men, women and minorities are taken into greater account in political processes,
- help public institutions to mainstream a gender equality perspective into political processes, and
- strengthen civil society's ability to influence decision-making.

Objective: Greater respect for human rights, by means of efforts to:

- heighten public awareness of human rights and the need for gender equality between women and men, girls and boys, and
- support government and independent institutions that monitor compliance with human rights.

Support may also be given to specific initiatives whose main purpose is to encourage solutions to current and potential conflicts.

5. Azerbaijan

5.1 Summary of poverty analysis

Azerbaijan's per capita GDP amounted to USD 957 in 2004. Since 2002, annual growth in the country has exceeded 10 per cent. The country's potential oil income is extensive, and the completion of the trans-Caucasian oil pipeline has meant that the prospects for continued economic growth are good. Growth in other sectors of the economy, however, is very limited. To ensure that growth in the oil sector benefits poor people, corruption must be reduced and there must be transparency in public finances. A continued process of democratisation would enhance transparency in this area. At present the country is characterised by authoritarian rule, corruption, a weak civil society and an ineffective opposition. Among the forces of opposition, weak party structures have come to provide a platform for expressions of individual will rather than for a political collective based on ideology.

As a result of the conflict with Armenia over the Nagorno-Karabakh enclave, there are around 800,000 internally displaced persons in the country. A large number of these live in refugee camps under extremely harsh conditions. The situation in the region has also created flows of migrants and refugees to other countries. According to the Council of Europe and the UNDP, there are serious

shortcomings in Azerbaijan as regards legal security and respect for human rights. By adopting the Council of Europe's Convention on Human Rights, the government has made a commitment to uphold these rights.

5.2 Cooperation in 2003-05: Conclusions

Development cooperation with Azerbaijan has been on far too limited a scale to allow for any definite conclusions. The two projects undertaken in the fields of statistics and human rights are judged to have been successful. The limited extent of Swedish cooperation with the country suggests that a stronger concentration on specific sectors is warranted.

5.3 Other donors

International support to Azerbaijan is less than that given to other states in the region because of the country's oil reserves. The largest donors are Japan, the World Bank and the US. The UNDP works with democratic governance, human rights, the prevention of HIV/Aids, and information and communications technology. The OSCE has an office in Baku that conducts activities within the wider security framework. The organisation is operating a police programme and is also involved in projects to combat corruption and human trafficking, and in a regional water project.

Sweden must seek to harmonise its interventions with those of other donors and also seek opportunities for co-financing.

5.4 Aims and objectives of development cooperation with Azerbaijan

The overall aim of Sweden's development cooperation with Azerbaijan is to create the kinds of conditions that enable poor people to improve their lives.

Specifically, the object is to create conditions for democratic governance and to strengthen respect for human rights. Sweden is to be guided in this endeavour by the perspective of the poor. Initiatives are to be undertaken by a small number of organisations and donors with a local presence. Values such as democracy, human rights and gender equality are key dialogue issues. Opportunities for dialogue should be exploited in connection with annual reviews of the cooperation programme.

Under present circumstances, development cooperation with Azerbaijan is expected to amount to some SEK 10 million per year. Sweden should, however, be prepared to increase its commitments in these countries should the prospects for reform work improve significantly.

5.4.1 Enhanced democracy and greater respect for human rights

Objective: Improved conditions for democratic governance, by means of efforts to:

- give citizens greater access and influence in political processes and heighten awareness of the need for gender equality between women and men, girls and boys,

- ensure that the differing needs of men, women and minorities are taken into greater account in political processes, and
- strengthen civil society and its ability to influence decision-making.

Objective: Greater respect for human rights, by means of efforts to:

- heighten public awareness of human rights,
- support government and independent institutions that monitor compliance with human rights, and
- help public institutions to mainstream a gender equality perspective into political processes.

Support may also be given to specific initiatives whose main purpose is to encourage solutions to current and potential conflicts. Co-financing of environment projects falling within the framework of the Swedish Government's expanded environment programme may also be considered.

6. Regional aspects

6.1 Cooperation in 2003-05: Conclusions

In general, Swedish development work with Southern Caucasus has sought to help resolve conflicts by promoting regional cooperation. Despite the cultural and historic ties that exist between the three countries, such cooperation presents considerable difficulties. A number of regional projects have therefore been more national in character, with only limited regional exchange. Azerbaijan has generally opposed cooperation with Armenia, since a large part of its territory has been occupied as a result of the conflict over Nagorno-Karabakh. Technology-related projects of mutual interest to the three countries, e.g. focusing on civil aviation and on joint water resources such as the Kura and Aras rivers, have been relatively successful, however. Interest in cross-border cooperation has generally been greater at the NGO level, involving for instance the Kvinna till Kvinna Foundation and the efforts of the United Nations Development Fund for Women (UNIFEM).

Determining the impact of regional cooperation on the ongoing conflicts is not easy. Opportunities for civil society to exercise an influence on frozen conflicts should be strengthened. Mutual understanding and exchange are desirable goals in the conflicts in Southern Caucasus, and Sweden should continue to promote dialogue in the region as part of its development cooperation effort. In the light of past experience, however, regional initiatives may be expected to comprise only a small part of overall development cooperation with the region.

6.2 Aims and objectives of development cooperation

Regional measures aim to promote dialogue and peaceful coexistence among the countries of the region. Swedish support may be provided to conflict management, to democracy and to technological programmes, involving for instance common water issues. Support is conditional on the presence of concrete needs and of a genuine interest in exchanges between countries. The Swedish development cooperation programme as a whole must be conflict-sensitive.

Initiatives that directly aim to promote conflict resolution and prevent potential conflicts from breaking out should be encouraged.

7. Implementation and follow-up

When implementing the strategy, Sida is to exploit opportunities to create synergies and develop joint initiatives both with other policy areas and with the Swedish business community.

Increased cooperation between Sweden and the countries of Southern Caucasus, particularly Georgia, is expected to lead to greater people-to-people exchanges between these countries. This applies to democracy and human rights, where exchanges can be expected in such fields as governance, gender equality, local democracy, civil society, labour market issues, security matters, conflict issues, financial management and agriculture. In addition, the Swedish Institute should be instructed to administer grants for Masters degree studies in Sweden. The Swedish Institute should also consider supporting the establishment of cooperation programmes/projects between higher education institutions in Sweden and Southern Caucasus.

A section office is to be established in Tbilisi to deal with the increased volume of development assistance to the countries of Southern Caucasus, particularly Georgia. The cooperation programme is expected to require the presence of at least one home-based administrative officer from Sida and two locally based programme officers in the field. A Swedish ambassador based in Stockholm is to be appointed for the countries of Southern Caucasus.

Implementation of the cooperation strategy is to be followed up in Sida's annual and semi-annual reports, which provide a basis for the consultative meetings held between the Ministry for Foreign Affairs and Sida.



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