

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2013 in favour of Azerbaijan to be financed from the general budget of the European Union

Action Fiche for Support to Regional and Rural Development in Azerbaijan

1. IDENTIFICATION

Title/Number	Support to Regional and Rural Development in Azerbaijan (SRRD) CRIS number: ENPI/2013/024-493		
Total cost	Total estimated cost: EUR 10,000,000. Total amount of EU budget contribution: EUR 10,000,000.		
Aid method / Method of implementation	Project Approach Direct centralised management (grants – call for proposal and direct award; procurement of services)		
DAC-code	43040	Sector	Rural development

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The Support to Regional and Rural Development (SRRD) supports the Government of Azerbaijan's (GoA) efforts in the diversification of the economy and sustainable development of the regions through the provision of assistance in line with the Pilot Regional Development Programme (PRDP) and European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) approaches.

The overall objective of this programme is to contribute to the diversification of the economy and sustainable regional development in Azerbaijan, while reducing socio-economic disparities between regions.

This will be done through a comprehensive and targeted three-component approach.

The first component focuses on building income generation capacity in the regions through a civil society grant scheme supporting local employment generation and socio-economic development pilot initiatives. Support will be directed to market driven initiatives using a value chain approach in areas related to agriculture, rural development, tourism, handicrafts, small manufacture and agro-processing.

The second component aims at strengthening national and local authorities' capacities to plan, implement and administer programmes directed to enhance socio-economic development of regions and to advance the local self-governance reform.

The third component enables large scale regional development efforts by prioritizing and identifying priority investment projects that could have a long term socio economic impact in the regions. It aims at leveraging resources from International Financial Institutions (IFIs) and/or the state budget for the future realization of the larger strategic investment projects.

While all components are important as stand-alone initiatives in supporting regional development, addressing them concurrently in the SRRD allows for synergies that result in a wider sectoral impact.

This programme is fully in line with both the reform agenda of the Government of Azerbaijan and its Eastern Partnership (EaP) policy commitments, as well as with priorities identified in the National Indicative Programme (NIP) for Azerbaijan for the period 2011-2013 as regards the provisions of priority area 2: "Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform" and its sub-priority 2: "Diversification of economy; regional and rural development.

The programme presents some innovative features for Azerbaijan such as the involvement of civil society in the implementation of the bilateral envelope through the grant scheme as well as the introduction of preparatory works for innovative funding mechanisms such as loan/grant blending for infrastructure investment programmes.

2.2. Context

2.2.1. Country context

2.2.1.1. Economic and social situation and poverty analysis

In its last 21 years of independence, Azerbaijan has made significant progress in terms of socio-economic development. In 1992, Azerbaijan suffered not only from a war with neighbouring Armenia, but also the collapse of the economy. This is in stark contrast to the current situation.

At present Azerbaijan is classified by the OECD/DAC as upper middle income country, with a GDP per capita of USD 7,500 in 2012.

As a result of strong growth and targeted social assistance programmes, the official poverty rate has dropped fivefold, from 44.7% in 2003 to 6% in 2012¹. According to official statistics, the unemployment rate is 5.4% and inflation within single digits (1.1% in 2012)². External debts are only 7% of the GDP and the commercial foreign trade balance is positive. The EU remains the largest trade partner (52.1% share in the foreign trade turnover in 2011), but the structure of the Azerbaijani exports to the EU markets is largely dominated by oil and oil-related products, with limited prospects of diversification.

Compared with other Caucasus or Commonwealth of Independent States (CIS) countries Azerbaijani economy is less diversified: the share of the oil and gas sector accounts for about 95% of total export and well over 50% of GDP, but only occupies 2% of the labour force. In

¹ www.stat.gov.az

² www.stat.gov.az

contrast, the agricultural sector, which accounts only for 5.5% of the GDP provides income and employment for over 37.6%³ of the population.

Disparities between regions are also evident and even increasing. The Absheron region, for example, takes up only 3.9% of Azerbaijan's territory, but it produces 80% of overall industrial output and accounts for about 90% of all oil and non-oil investments in the country. GDP per capita in the non-oil sector is still three times higher in Baku than the national average.

Oil-financed transfers and real wages growth has helped in reducing poverty drastically. According to a World Bank study⁴, 63.2% of households in Azerbaijan receive at least one type of social transfer. However, reliance on oil revenues exclusively may not be sustainable in the long run as it counters the forces of economic diversification and employment generation. Oil revenues may decline in the future, while social transfers and subsidies might become a disincentive for improving labour productivity and further stimulate the diversification of the economy. In addition, more inclusion is needed in allocating the benefits of growth. Certain groups in fact have benefitted less from the growth and these are: (1) Azerbaijani living in rural areas, especially those engaged in low-productivity agriculture; (2) Azerbaijanis living in small cities outside the capital; (3) internally displaced people (IDPs) who are insufficiently integrated into the economy.

Therefore, to generate inclusive and sustained growth, Government policy should focus on implementing measures that can stimulate diversification in the economy and the development of slow growing non-oil sectors with high employment potential, such as agriculture, tourism and manufacturing.

2.2.1.2. National development policy

The main strategic document providing the overall priority-setting and development framework of the country is the Development Concept "Azerbaijan 2020: A Look into the Future" (in the following referred to as "Vision 2020") approved by the President Aliyev on 29 December 2012. The main policy goal stated in the document is to diversify the economy and to redistribute the oil wealth for a long-term sustainable and more balanced development. In this context, the main aspiration stated by the President of Azerbaijan is to double the GDP in the next ten years via the non-oil sector and attain the status of a high income country.

Besides the "Vision 2020", which sets more general long term policy objectives, regional and rural development and poverty reduction have been addressed in the national policy framework defined by the "State Programme for Poverty Reduction and Economic Development for 2008–2015" and the "State Programme for Socio-Economic Development of Azerbaijan's Regions for 2009–2013"⁵.

It has to be noted that the two state programmes mentioned above are mainly public

³ www.stat.gov.az

⁴ World Bank, Azerbaijan: Inclusive Growth in a Resource-Rich Economy; 2013

⁵ A follow-up state programme until 2016 is under preparation.

investment programmes rather than real strategy documents and, as such, they do not present a result oriented focus with specific benchmarks and indicators and/or costed activities. This is however the normal practice in Azerbaijan.

2.2.2. Sector context: policies and challenges

Anticipating challenges in terms of redistributing economic growth and wealth, the Government of Azerbaijan has declared the development of the non-oil economy and the reduction of socio-economic regional disparities as the most pressing priorities for the coming years.

To this end, development of the agriculture, tourism, and manufacturing sectors are viewed as crucial due to their scale and potential for growth.

As other economic sectors, the **agricultural sector** and the related processing industries have suffered from adverse consequences of privatization in the post-soviet period. While these structural problems prevail, thanks to the climatic and geographic advantages of the country, the agriculture sector has significant potential for expansion. While it accounts only for the 5.5% of the GDP, it still provides income and employment for about 37.6% of the employed population and remains the second largest export sector after oil and gas averaging 50% of exports in the non-oil sector⁶.

In addition agriculture productivity, which is still very low, has ample margins for improvement if appropriate technologies are introduced. While agriculture growth between 2002 and 2010 was around 3.8% per annum, agriculture land yields for most crops have remained flat since 1985 and are still low compared to similar countries.

This is explained by the fact that after the land reform of the 90'ies the average size of the farms has decreased and self-subsistence family farming has become the most dominant case.

In addition, a small number of wholesalers dominate regional markets, resulting in significant difference between farm gate and retail prices. Agriculture services such as: irrigation, seed supply, veterinary services, machinery services, food safety regulations remain weak and need to be strengthened.

Insufficient knowledge about **innovation potential** through upgraded machinery, new crops and breeds, innovative production technologies and marketing abilities contribute to insufficient product development and marketing (packaging, branding etc.). At the same time production and quality standards are not yet up to date and in line e.g. with EU requirements.

The **tourism sector** provides some significant employment and income generation opportunities in particular for the population in rural and mountainous areas. Yet, despite of the country's attractive topography and its rich cultural heritage, tourism is with only 1.2%⁷ of the GDP severely underdeveloped in Azerbaijan. In particular, the low quality of tourism services, lacking accommodation, weak or non-existent tourism infrastructure, insufficient

⁶ 2011 figures (www.stat.gov.az)

⁷ www.azstat.org

marketing and visa requirements hamper the development of the sector. Furthermore, there is no systematic promotion of local and regional products, like handicrafts and typical local food.

Manufacturing is one of the main priorities of the economy, yet with only 4.4% of GDP its share remains low. Around 5% of the economically active population is working in this sector. Reasons for the weak performance of enterprises in this sector are lack of management capacity, strategic planning, business and marketing skills of the entrepreneurs and their staff.

Apart from these sector specific problems, a set of common **structural problems (horizontal issues)** have an adverse effect on the economy of the country. These include:

- Lack of appropriately skilled workforce. The education system in its current form cannot provide industrial enterprises and service providers with qualified human resources;
- Low self-organising potential of actors at the regional level. As a result, income generating potential, which is related to the systematic development of value chains, remains unexploited, and opportunities provided by regional market relations (local production cycles) are not utilised;
- Lack of policy level strategic approach to development of business-oriented infrastructure and services in the country (e.g. industrial parks, business centres, business incubators, business agencies, etc.) by both local and central government administrations.

While the Government has put significant efforts and resources into improving basic infrastructure (roads, water, energy, waste management) in the regions, there has been less focus on improving the overall local self-governance system, including streamlining inter-institutional relations and promoting a more participatory and democratic approach to local self-governance. It is however recognized, that implementing new approaches for regional and rural development is key to unleash a more sustainable and inclusive growth and for the future socio-economic cohesion of all regions of Azerbaijan.

2.3. Lessons learnt

Implementation of sector budget support operations⁸ initiated in 2007 has been hobbled by heavy Government of Azerbaijan bureaucratic procedures, limited reform-oriented vision of the administration and lack of Public Finance Management (PFM) reform dialogue. For this reason the budget support modality is not proposed for AAP 2013.

On the other hand, experience in managing direct support to civil society through horizontal budget lines (EIDHR and NSA/LA) has shown that well designed, targeted grant schemes can be very effective in Azerbaijan stimulating community mobilization, civic participation, and engaging local government in developing innovative and modern solutions.

⁸ In the energy, justice and agricultural sectors.

Even though the reform of the local self-governance system is not high in the political agenda, GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*) has been successful through its “Local Self-government Project in the South Caucasus” in working with local authorities by strengthening their capacities, in fostering stakeholders’ dialogue and in promoting more participatory approaches to local and territorial planning. This shows that work in the democratic and local governance sphere is possible, especially if it is tackled at the local level.

While so far Azerbaijan has benefitted only marginally from the Neighbourhood Investment Facility (NIF) with only one project supported, the high level of large scale investment projects in the country indicates that there is significant potential for these sorts of interventions.

Building on these lessons, the proposed programme will be implemented through three main modalities: support to bottom-up initiatives directed to economic re-generation of rural areas, capacity and competence development of national and local authorities in managing regional and rural development processes, and the preparation of bankable infrastructure projects to leverage additional financing from IFIs and if possible through the NIF.

2.4. Complementary actions

The foreseen programme is sequenced with and will complement on-going and planned support interventions, funded under the NIP, such as:

- i. **Agricultural and Rural Development Support Programme (ARDP) SBS (AAP 2009)** – which aims at supporting the State Programme for the "Reliable Supply of Food Products" in the area of agriculture production, food safety and food security. The earmarked budget for this programme is EUR 14 million (including EUR 1 million for technical assistance) to be implemented until the end of 2014.
- ii. **Regional Development Support Programme (RDSP) SBS (AAP 2011)** – which aims at supporting the implementation of the State Programme on Sustainable Development of Regions. The programme’s budget is EUR 20 million (including EUR 0.5 million for technical assistance) to be implemented during 2013-2015 period.
- iii. **Neighbourhood East Civil Society Facility / Non-State Actors Programme (CSF/NSA)**. Under the CSF/NSA 2012 a Call for Proposals has been launched in April 2013⁹ for supporting small scale income generating activities in rural areas and showcasing pilot initiatives for local development. The indicative implementation period for the grant projects is 2014-2016.

Whereas assistance under AAP 2009 focuses on regulatory and institutional reforms of the food safety system and the security of food supply (building silos, markets, etc.) and AAP 2011 targets government industrial and private sector development related policies (industrial parks, entrepreneurship financing, business incubators), the grant funding under the CSF/NSA programme will pilot small scale bottom-up income and employment generating initiatives, thereby helping build the trust between civil society and the government in this field. The call will also serve to increase the Ministry of Economic Development’s (MoED) awareness about

⁹ Call for proposals EuropeAid/134048/L/ACT/AZ.

EU procedures and to better target future calls to be financed under the proposed AAP2013. The SRRD will build on the results of the above mentioned programmes pursuing a more integrated and comprehensive approach to rural development, whereby the different components (support to bottom-up local development initiatives, capacity development at national and local level, civil society involvement, investment promotion) will mutually reinforce and complement each other.

In terms of sequencing, the activities implemented under the AAP 2009 (ARDP) will be completed by the time AAP 2013 operations will start, while activities under AAP 2011 (RDSP) and under the NSA/CSF will be half way in their implementation. Therefore, the lessons learned from these programmes will be fully taken into account during the inception phase and the implementation of the proposed programme.

In terms of focus, the two budget support programmes target more the policy and regulatory aspects, in areas such as food safety, technical barriers to trade, private sector development, industrial policy, while the proposed programme will focus more on capacity development of the different stakeholders and support to bottom-up approaches to regional and rural development.

Complementarity of the programme will be ensured with other Government programmes providing credit to entrepreneurship and agriculture ventures in rural areas such as the National Fund for Entrepreneurship Support or the Agrarkredit Bank, by co-ordinating and streamlining regional and value chain focus of this programme with the relevant government programmes. The grant scheme will aim at facilitating the start-up of new market-driven small scale ventures which would normally not qualify for formal credit. The idea is that at the end of the projects promoted by the grant scheme, the beneficiaries will be able to apply to the credit institutions for expansion of their activities and thus ensure sustainability of the programme.

In the field of rural and regional development the most active donors are USAID, the World Bank (WB) and GIZ.

The World Bank is implementing the **AzRIP-2 project**, co-funded by the Government of Azerbaijan, which aims at investing in social infrastructure in six economic regions of Azerbaijan. The timeframe of the project is 2012-2016 with a total amount of USD 53.6 million. In the field of agriculture the WB has been implementing the **Agricultural Development and Credit Program (ADCP)**, which ended in 2012. A second phase of the programme (ADCP II) has been prepared and is currently in negotiations with the Government. The major focus of the new project would be to support the development of economic activities in the rural areas.

USAID is implementing the **Socio-Economic Development Activity (SEDA, USD 14.4 million)** project whose main objective is to provide support for community based socio-economic projects. The project will be implemented during the period 2012-2016 and covers the Aran and Guba-Khachmaz economic regions. In addition, USAID has been implementing in the last three years the **Azerbaijan Competitiveness and Trade (ACT)** project which was designed to improve the business environment; develop a liberalized, more transparent trade

environment; and improve targeted value chains in the agricultural sector in Azerbaijan. The current project ends in September 2013, but a second phase is under preparation.

The "**Municipal development and local self-governance in the South Caucasus**" project implemented by GIZ is strengthening local governance stakeholders (civil society, municipalities and government institutions) and is supporting the exchange of experiences and best practice in local governance between the three countries of the South Caucasus. Two components are relevant for the SRRD: component 1 - provision of training and advisory services to local municipalities and civil society organisations to improve municipal capacity for service delivery and citizen participation; component 2 aims at improving the co-operation between local governance stakeholders at different levels through support for joint projects.

EU financial institutions are also active in Azerbaijan: EBRD is the largest investor in the private and financial sectors of Azerbaijan. In 2011 the EBRD invested in 12 projects for a total of USD 391 million. EBRD's main areas of co-operation are: the enterprise sector, the financial sector, infrastructure development and institutional governance. EBRD also provided in 2011 a USD 250 million loan for the reconstruction of key regional roads, co-financed by the NIF. *Kreditanstalt für Wiederaufbau* (KfW) is active in Azerbaijan in the field of waste and water management. Recently a USD 100 million loan has been agreed with GoA for the rehabilitation of the water supply and sewage systems of Ganja and Shaki. EIB and *Agence Française de Développement* (AFD) have not been accredited yet in Azerbaijan and have therefore no operations running.

2.5. Donor co-ordination

In terms of co-ordination, all donors involved in the socio-economic dimension meet on a regular basis to co-ordinate their activities. This donors group is currently co-ordinated by the EU Delegation. In addition, there are two sector co-ordination sub-groups directly related to the priorities of the SRRD: i) Non-oil sector development, trade and investment (currently co-ordinated by USAID/ Switzerland) and ii) Agriculture and Rural Development (currently co-ordinated by USAID). These co-ordination groups represent an important forum for information sharing and discussion on common policy issues, while at the same avoiding overlapping, maximising complementarity, and ensuring coherent policy dialogue with the Government.

Lastly, considering that one of the SRRD objectives is to leverage additional financing from IFIs for infrastructure investment projects in the regions, co-ordination with IFIs will be ensured at all times and especially with the EU financial institutions (EBRD, KfW, EIB, AFD) in the framework of the NIF.

3. DETAILED DESCRIPTION

3.1. Objectives

The overall objective of this programme is to contribute to the diversification of the economy and sustainable regional development in Azerbaijan, while reducing socio-economic disparities between regions.

Specific Objectives

1. To foster economic regeneration and job creation in rural areas of Azerbaijan;
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 local and national authorities in the prioritization, identification and appraisal of large investment projects that have a clear strategic impact in the development of regions and that can be further financed through blending mechanisms and/or state budget.

3.2. Expected results and main activities

Objective 1: To foster economic regeneration and job creation in rural areas of Azerbaijan

- **Result 1.1:** Community based initiatives for market-driven income and employment generation in rural areas of Azerbaijan promoted;

Main activities include:

- Support to start up and expansion of market driven small scale initiatives using a value chain approach in areas such agriculture, tourism, handicraft and agro-processing.
- Technical and business advice, including preparation of business plans, and support to existing small and medium businesses/enterprises seeking to expand and to establish new businesses/enterprises, either in, or impacting upon, the rural areas of Azerbaijan;
- Creation or enhancement of appropriate production, processing and marketing systems, for a wide range of traditional and new rural pursuits (agriculture and non-agriculture);
- Support co-operative production, group marketing and promotion, including actions that will improve member organisations (producers, women, youth groups, IDPs, etc.) to form "clusters" and to represent and advocate for their own interest;
- Strengthen capacities of community-based organisations, producer associations, farmers' and women groups, IDPs to better advocate for their needs and actively participate in the socio-economic development of their communities;
- Training and skills development in support of employment generating opportunities;
- Support to community mobilization and civic participation.

Objective 2: To strengthen national and local authorities' capacities to plan, implement and administer programmes directed to enhance socio-economic development of regions;

- **Result 2.1:** Capacities of public authorities in applying regional management tools strengthened;

Main activities include:

- Provision of technical assistance (TA) to MoED, its regional offices and relevant government bodies to implement regional development processes. The capacities supported should include, among others, capacities and competences for: planning, implementing and administering rural development policies and actions; involvement of rural stakeholders in planning and programming; inter-ministerial co-ordination.
- Technical support to MoED for steering, monitoring and co-ordinating the different initiatives supported through the SRRD.
- Ad-hoc policy advice to MoED and relevant government bodies in the areas of SMEs development, business oriented infrastructure and services, clustering, value chain development, skills development, sector specific technical regulations (seed development, law on co-operative production, etc.);

- **Result 2.2:** Local authorities' capacity in management and territorial planning strengthened.

Main activities include:

- Support to territorial planning
- Institutional capacity building of municipalities and local authorities;
- Development of sustainable local/regional development plans which are responsive to socio-economic needs of the population and environmental challenges of the territory.

Objective 3: To support local and national authorities in the prioritization, identification and appraisal of large investment projects that have a clear strategic impact in the development of regions and that can be further financed through blending mechanisms and/or state budget;

Expected Results

- **Result 3.1:** Potential strategic investment projects identified and their pre-feasibility assessed;
- **Result 3.2:** Additional funds from the state budget and IFIs attracted.

Main activities:

- Methodological support for the identification and selection of infrastructure projects
- Facilitation of consultation process between public authorities and civil society and other stakeholders about identified projects;
- Preparation of pre-feasibility studies and environmental impact assessments for big-scale investment projects;
- Preparation of bankable projects for leveraging additional financing from IFIs.

The three components are complementary and mutually supportive: the first component targets community-based initiatives that will trigger economic and employment generation at the local level; the second component addresses capacity development at the central and local level by strengthening the capacities of MoED and other public bodies to steer the regional development process; and the third component will target infrastructure needs at the regional level which may have been identified within the previous components and that could further stimulate the socio-economic potentials of the regions targeted.

While all these components are important as stand-alone initiatives in supporting regional development, addressing them concurrently in the SRRD allows for synergies that result in a wider sectoral impact. Specifically:

- Pilot initiatives conducted by civil society at the local level not only have a direct impact on the livelihood of target communities, but also may influence policy decision at the central level. For example, an analysis of the hazelnut value chain has demonstrated that problems exist at all levels, from production, to processing, and conformity certification¹⁰. It has been demonstrated that in order to unlock the export potential, efforts should target both ends: the local level, improving producers' capacity and organization and at the central level, working on strengthening laboratory capacity and the sanitary and phyto-sanitary (SPS) regulatory framework. The same can be said for other value chains with export potential (wine, pomegranate, citrus, dairy, etc.)
- Likewise, providing pilot examples of successful co-operative production schemes following the European model might influence positively the Government attitude towards this approach. Due to the fragmentation of land-ownership, consolidation of production and marketing is crucial to improve the productivity and efficiency of the system.
- Furthermore, good bottom-up initiatives showing the benefits of civic participation in local development issues, is likely to influence positively the overall Government approach towards the reform of the local self-governance system.
- Lastly, the third component will trigger the investment in strategic infrastructure which might be identified through the other two components, with direct involvement of the communities and local authorities concerned, thus ensuring that the projects selected will respond to clear identified needs, will be environmentally sound and will be fully accepted by the local population.

In conclusion, by working on both levels and ensuring that civil society initiatives are in place while supporting government reform efforts, the expected impact of the interventions will be maximised.

¹⁰ GoA Directorate General Health and Consumers Audit 2012

3.3. Risks and assumptions

Even though the orientation, structure and content of the SRRD Programme is fully in line with the Government of Azerbaijan's and the co-ordinating Ministry's policies for the coming period, the main risk, which might affect the proper implementation of the programme lies in the centralized structures and the (expectedly) weak management capacities for steering such a tool at national and – in particular – at regional level.

To mitigate this risk, the programme foresees under result 2 comprehensive capacity building measures aiming at improving regional development planning and co-ordination capacities of MoED and its regional offices.

Another significant risk is the uncertainty of the Government's commitment to advancing self-governance reforms and overall lack of governmental strategic approach to territorial planning. Mitigation measures for this include continued policy dialogue with the Government, both demonstrating the potential development benefits of regional development as well as reminders of its commitments both internationally (Council of Europe) as well as internally (Azerbaijan 2020: A Look into the Future);

In addition, recent Government restrictions on civil society organisations' (CSOs) activities in the regions and the general reservation to co-operate with civil society, if continued, may limit the effectiveness of the bottom-up initiatives promoted through the SRRD. Continue wide policy dialogue with the Government regarding the role and benefits of partnership with CSOs will be also another important mitigating measure pursued by the EU Delegation.

3.4. Cross-cutting issues

In the preparation and implementation of projects under this programme, special attention will be paid to ensure gender equality, sustainable environment/climate change, good governance/anti-corruption measures and human rights safeguards.

In particular, it is expected that this programme will have a direct positive impact in empowering women groups in advocating for their interest and in actively participating in the socio-economic development of rural areas. Another group that will be targeted under the first component will be the IDPs, which so far have only marginally benefitted from the economic growth and are still not present enough into the labour market.

Environmentally sustainable development will be streamlined throughout the implementation of this programme. The income generating activities promoted under this programme (component 1) will have to be evaluated against their impact on the environment. Following recommendations of the Country Environmental Profile (CEP) produced in early 2013, particular attention will be paid to land and water use, considering the particular relevance of these resources for the future sustainable development of the regions. In addition, environmental considerations will be systematically taken into account during the preparation of local development plans (component 2). Specific training in this sense will be organized for local authorities and community based organisations (CBOs).

Following another recommendation of the CEP, under component 3 priority will be given to investment projects that will have a clear link to the environmental protection or in climate change adaptation (renewable energy, waste and water projects, etc.). Under this component, environmental impact assessments for large investment projects may also be financed.

By fostering community participation and democratic governance, the project will also have a direct impact on horizontal governance issues such as the fight against corruption, transparency and accountability in the efficient use of public resources at the local and central level.

3.5. Stakeholders

The following organisations have been identified as potential beneficiaries of this assistance:

1. **State stakeholders at national level** are the Ministry of Economic Development of the Republic of Azerbaijan which is the co-ordinating Government body for the SRRD, in charge of regional development, and other national line ministries with responsibilities in certain areas with a bearing on local/regional economic development. According to the content and structure of the PRDP and ENPARD, in particular the Ministries of Agriculture, Education, Tourism and Labour will be included in the consultation and implementation processes of the programme. The co-ordinating functions of the MoED will be supported by specific TA support under component 2 of this programme. Targeted assistance will be directed also to MoED's regional branches for the co-ordination and monitoring of the different actions at the local level.
2. **State stakeholders at local level** and potential beneficiaries of the SRRD interventions are in particular the elected bodies in municipalities and rayons and/or their representative organisations. The heads of rayons as appointed representatives of the President, heads of municipalities, as well as the representatives of the line ministries in the regions shall be included in the programme implementation on a consultative basis. Assistance to public stakeholders at the local level will be provided mainly through GIZ in the framework of the result 2.2.
3. The inclusion of **non-governmental stakeholders** in the programme design and implementation is one of the innovative features of this programme in line with the guiding principles of the PRDP and the new European Neighbourhood Policy. NGOs engaged in socio-economic development activities in the regions are the direct addressees as well as prime beneficiaries of the grant scheme under the first component of the programme. In addition to "classic" NGOs (e.g. development organisations), the participation of intermediary organisations, CBOs, business associations, research institutions, training and qualification providers and similar institutions is foreseen. In addition, among the final target groups of the grant scheme will be community based organization, small-holder farmers and producer groups, youth, woman organisations as well as IDPs and other vulnerable groups.

Experience has shown that specialised NGOs are very effective in supporting communities and groups in participating in local economic development processes, by promoting bottom-up local initiatives which, if successful, may also influence policy development at the regional and national level.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of the Financial Regulation.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Implementation components and modules

The programme will be implemented through:

4.3.1.: Grants: call for proposal (direct centralised management) for implementing activities foreseen under Objective 1

4.3.2.: Grant: direct award (direct centralised management) for implementing activities under Objective 2, Result 2

4.3.3.: Procurement (direct centralised management) service contracts for implementing activities under Objective 2, Result 1 and Objective 3.

4.3.1. Grants: call for proposal "Promotion of local initiatives for income and employment generation" (Objective 1) (direct centralised management)

- (a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The call for proposals modality will be used for implementing actions under Objective 1. The aim of the call will be to promote community based, bottom-up initiatives for income and employment generation following a value-chain approach.

The activities and expected results of the call will be in line with point 3.2 of this action fiche.

- (b) Eligibility conditions

The call for proposals will be open to non-profit making legal persons established in Azerbaijan, in the European Union, in an IPA or EEA country, and to international organisations. The following type of organisations will be eligible: non-governmental organisations, community based organizations, business associations, public sector operators, local authorities, international (inter-governmental) organisations.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 90% of the eligible costs of the action.

The maximum possible rate of co-financing may be up to 100% in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to launch the call

Second trimester of year 2015.

4.3.2. Grant: direct award to GIZ (direct centralised management)

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

The objective of this component is to implement activities under Objective 2, Result 2, notably in the area of participatory territorial planning, capacity development of local authorities and more in general, in the reform of the local self-governance system.

(b) Justification of a direct grant

Under the responsibility of the authorising officer by delegation, the grant may be awarded without a call for proposals to GIZ.

The recourse to an award of a grant without a call for proposals is justified because GIZ has a successful track record in working on local-self-governance issues in Azerbaijan and the South Caucasus both at the local level in strengthening the capacity of municipalities and at the central level by providing high-level advisory services to the MoED and other stakeholders. Through its South Caucasus Local Governance Project, GIZ has been successful in stimulating dialogue between CSOs and local authorities and in promoting a more participatory approach to local development issues. In addition, reform of the local self-governance system in Azerbaijan is a politically sensitive field which can neither be tackled through normal technical assistance contracts, nor through scattered CSO projects, particularly taking into account the recent crackdown on CSO activities in the regions.

GIZ is presently the only organisation capable of operating in this field of activity in Azerbaijan to which the grant relates by virtue of all considerations of fact.

Other positive external effects of a direct grant award to GIZ are the complementarity and synergy with on-going GIZ programmes and the leveraged additional financing of a minimum of 20% co-financing from GIZ.

(c) Eligibility conditions

Not applicable

(d) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(e) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 80%.

The maximum possible rate of co-financing may be up to 100% in accordance with Articles 192 of the Financial Regulation if full funding is essential for the action to be carried out. The essentiality of full funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.

(f) Indicative trimester to contact the potential direct grant beneficiary

First trimester of 2015.

4.3.3. Procurement (direct centralised management)

Subject	Type		Indicative number of contracts	Indicative trimester of launch of the procedure
Objective 2.1: TA and policy advice to MoED and other public bodies	Services		1	I/2015
Objective 3: TA in support of identification of large investment projects and blending mechanism	Services		6	I/2015
Audit, evaluation, visibility	Services		4	I/2015

4.4. Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, the geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basis act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the ENPI Regulation on the basis of the unavailability of products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5. Indicative budget

Module	Amount (in EUR)	Third party contribution (in EUR, indicative)
4.3.1. – Call for proposals (direct centralised)	4 300 000	1 075 000
4.3.2. – Direct grant to GIZ (direct centralised)	2 000 000	500 000
4.3.3. – Procurement (direct centralised) Service contracts	3 400 000	N.A.
4.7. – Evaluation and audit	200 000	N.A.
4.8. – Communication and visibility	100 000	N.A.
Total	10 000 000	1 575 000

4.6. Performance monitoring

A Steering Committee (SC) will be established in order to steer and monitor implementation of the programme. It will be chaired by the MoED with the participation of other national and local relevant stakeholders (Ministry of Agriculture, Ministry of Labour, Ministry of Tourism and Culture etc.). Exact composition will be decided upon the start of the programme implementation together with the MoED.

The programme will be monitored according to standard procedures based on regular assessment of progress and delivery of specified programme results and the extent to which the programme objectives have been achieved. Key objectively verifiable indicators (OVIs) will be defined for this purpose. The baseline is provided by official statistics (2013 figures) and by the status-report which was commissioned by the EU Delegation for the preparation of the PRDP and which present an overview and analysis of the main socio-economic indicators of the regions in 2012.

The internal monitoring system will be set-up by MoED with the support of a dedicated TA project (see result 2.1). MoED will be in charge to monitor and steer all the various components supported under the programme.

External monitoring will be undertaken in the form of Results Oriented Monitoring (ROM) via independent consultants, starting from the sixth month of project activities.

4.7. Evaluation and audit

Evaluation of the results achieved as well as external audits (when necessary) may be entrusted to external consultants.

A final programme evaluation will be carried out to assess programme performance, achievements and impact. Finding of this evaluation will guide future interventions to be supported under the Strategic Support Framework (SSF) 2014-2017 in the area of regional/rural development.

4.8. Communication and visibility

Adequate visibility of the EU supported initiatives under this programme will be ensured through its implementation. For this purpose, each project implementing the programme will have its own communication and visibility component and budget, according to the Communication and Visibility Manual for EU External Actions.