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ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2017 in favour of the Republic of Azerbaijan

Action Document for European Union for the Lankaran Region of Azerbaijan (EU4Lankaran)

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1 Grants: call(s) for proposals for a Twinning project on strengthening the quality, safety (sanitary and phytosanitary (SPS) standards) and competitiveness of Azerbaijan's fruit and vegetable produce (direct management) and 5.3.2. Grants: call for proposals in support of enhancing competitiveness, collaborative undertakings and modernization of the fruit and vegetable sector in Lankaran (direct management.)

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|--|--|
| 1. Title/basic act/ CRIS number | European Union for the Lankaran Region of Azerbaijan (EU4Lankaran) CRIS number: ENI/2017/040-366 financed under European Neighbourhood Instrument |
| 2. Zone benefiting from the action/location | The action shall be carried out at the following locations: Lankaran region and Baku, Azerbaijan |
| 3. Programming document | Single Support Framework for EU Support to Azerbaijan (2014-2017) |
| 4. Sector of concentration/ thematic area | Regional and rural development |
| 5. Amounts concerned | Total estimated cost: EUR 14 055 555 Total amount of EU budget contribution: EUR 13 500 000 This action is co-financed by potential grant beneficiaries for an |

| | | | | |
|--|---|--|-------------------------------------|-----------------------|
| | indicative amount of EUR 555 555. | | | |
| 6. Aid modality(ies) and implementation modality(ies) | Project Modality Direct management – grants - calls for proposals; procurement of services | | | |
| 7. DAC code(s) | 250 - Business and other services; 311 - Agriculture; 321 - Industry; 430 - Other multisector - 43040 Rural development. | | | |
| 8. Markers (from CRIS DAC form) | General policy objective | Not targeted | Significant objective | Main objective |
| | Participation development/good governance | | <input checked="" type="checkbox"/> | |
| | Aid to environment | | <input checked="" type="checkbox"/> | |
| | Gender equality (including Women in Development) | | <input checked="" type="checkbox"/> | |
| | Trade Development | | <input checked="" type="checkbox"/> | |
| | Reproductive, Maternal, New born and child health | <input checked="" type="checkbox"/> | | |
| | RIO Convention markers | Not targeted | Significant objective | Main objective |
| | Biological diversity | | <input checked="" type="checkbox"/> | |
| | Combat desertification | | <input checked="" type="checkbox"/> | |
| | Climate change mitigation | | <input checked="" type="checkbox"/> | |
| | Climate change adaptation | | <input checked="" type="checkbox"/> | |
| | 9. Global Public Goods and Challenges (GPGC) thematic flagship | Trade integration for green and inclusive growth Switch to Green: supporting private sector-led inclusive green growth Biodiversity for Life Initiative (B4LIFE) | | |

SUMMARY

Azerbaijan's economy has witnessed strong growth over the last decade with average real GDP growth rate exceeding 10%. Income of population increased by 5.2 times and the poverty rate decreased from close to 50% to 4.9%. However, important disparities remain, notably between the oil-rich capital and the rest of the country, and more generally, between the urban centres and the rural areas. These problems have been exacerbated by the recent oil price driven crisis and reinvigorated the need to revive the economic self-standing of the regions and, more generally, to support the economic diversification of the country. For now the centralised management approach still dominates, although positive changes towards more regionally diversified support measures are expected. In anticipation of this process, the action will target one selected region (Lankaran Economic Region) enabling the EU to support local communities in a holistic manner to efficiently address their problems.

The Lankaran Economic Region was selected for this targeted EU assistance for several reasons: i) Lankaran has the lowest regional economic output and income per capita and the lowest levels of investments per capita. At the same time, the region has undisputed potential

in the production of high-value horticultural produce, which can be better marketed in future through improved transport infrastructure, for instance the newly created South-North corridor; ii) the region's features respond to the EU's policy on supporting rural development through measures targeting added values in processing chains, quality schemes, environment, areas with natural constraints, diversification and even rural heritage; iii) the region has not hosted much of the presence of international assistance until now, but has recently received increased Government attention in the form of pilot support to small family businesses.

The action will aim to sustainably enhance the competitiveness of the fruit and vegetable sector of the Lankaran Economic Region. It will be based on the principles of collaborative, sustainable and sharing economy in line with EU best practices and standards. This approach supports initiatives based on horizontal networks and participation of communities which are aware of their potential and resources.

The three main results to be achieved with the action are: i) system for regional spatial planning improved, ii) network of local economic and community cooperation hubs established and modernised, and iii) Lankaran's entrepreneurial and investment conditions in the fruit and vegetable sector improved.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Azerbaijan's efforts to develop the non-oil sector over the last ten years have contributed to an increase in the share of the non-oil sector in the GDP from 56% in 2005 to 69% in 2015. However, non-oil exports' share in overall exports still does not exceed 15%. Moreover, the recent fall in oil prices has exposed Azerbaijan's continued "oil dependence"/vulnerability to exogenous shocks, but also given renewed vigour to its economic reform / diversification agenda. The EU can be a strong partner in implementing this reform agenda.

1.1.1. Public Policy Assessment and EU Policy Framework

As a strong indication of the Government's resolve to address critical economic challenges, the President of Azerbaijan approved on 6 December 2016 a Decree adopting the "*Strategic roadmap on national economy and basic sectors of the economy*". The Roadmap sets out the short term (2020), mid-term (2025) and long-term (2030 and beyond) reform agenda of the government to diversify its economy and move towards a private sector led growth model.

The Roadmap includes a strategic vision for the development of the agriculture and agri-business sector in the country. The following key strategic objectives and targets mentioned therein are relevant to the action:

- Increase of agricultural production potential through value chains;
- Formation of farmer partnerships and development of cooperation in agriculture;
- Development of research and extension together with advisory services in the field of agriculture;
- Sustainable use of natural resources;
- Development of market infrastructure for producers to access the market, and
- Improvement of business environment in the agricultural sector.

The Roadmap calls for a more regionally diversified policy of state support (including the subsidies applied) as well as the need to develop collaborative forms of agri-business. The EU, through the sharing of its own economic transformation experience and the diffusion of

EU standards and best practices, can continue to be an important partner in this domain. Ahead of the adoption of the Roadmap, the Government made some important legislative changes that this action can also build on. For instance, the Law on Agricultural Cooperation (No 270-VQ of 14 June 2016) regulates the process of formation of agricultural cooperatives. Similarly, the Government has started new policy measures targeting small farmers under the ABAD scheme (Easy Support to Family Business) introduced by the State Agency for Public Service and Social Innovations (ASAN).

The programme corresponds to the focal sector of Regional and Rural Development under the Single Support Framework (SSF) for EU support to Azerbaijan (2014-2017). It is fully aligned with the overall objective of EU support for this sector “to support Government efforts in the diversification of the economy while promoting a balanced and inclusive growth, decrease regional disparities and improve rural livelihoods” as well as with all three specific objectives.¹

Support to regional/rural development has been an important area of EU-Azerbaijan cooperation and, as such, has been included under "*economic development and market opportunities*" in the draft Partnership Priorities to be agreed between the EU and Azerbaijan in 2017, while the new agreement between the EU and Azerbaijan for which negotiations are currently ongoing is also expected to cover cooperation in agriculture and rural development.

In moving forward, one important constraint in regional development that the project intends to address relates to the lack of spatial planning and zoning policy. Here the EU experience can be of particular value. In addition, through the action EU experiences in the area of rural and regional development (including good practices of community mobilisation and modernization) could be looked for and piloted in Lankaran's Economic Region. The EU can offer policy advice and assistance on integrated approaches towards economic and social cohesion based on its experience with and management of the EU Cohesion Policy. The proposed support is in line with relevant EU policies such as "*The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*", currently implemented through the European Agricultural Fund for Rural Development (EAFRD). It also corresponds to the priorities of smart, sustainable and inclusive growth, further addressed under the common framework of the European Structural and Investment Funds.

By supporting economic resilience, the action with its concrete focus on economic development and modernisation, investment and developing of employment options for the rural youth in the Lankaran economic region is fully aligned with the November 2015 review of the European Neighbourhood Policy (ENP).² The action is also fully aligned with several of the 20 deliverables identified in the 2016 EU staff working document "*Eastern Partnership – focussing on key results and deliverables*". This includes the goal of enhancing membership of business oriented farmer groups/cooperatives promoting better access to markets under the Riga priority of economic development and market opportunities. Furthermore, account is taken of environment and climate related deliverables, as well as deliverables of cross-cutting nature. Alignment with EU global policy objectives is also ensured, in particular the Sustainable Development Goals and the Paris Climate Agreement.

¹ These are: i) to contribute to business development, investment promotion and employment generation across economic regions of Azerbaijan, ii) to reform the regulatory framework and enhance democratic participation, institutional capacity and efficiency in the field of local governance and regional development and iii) to raise rural livelihoods and the quality of life in rural areas.

² Joint Staff Working Document (SWD(2015) 500 final) by the European Commission and the European External Action Service as a Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

By addressing the needs of small farmers (and supporting the establishment and development of integrated forms of production), the action will provide the base for modernisation and adoption of new EU technologies and best practices while opening opportunities for EU-based producer organisations to enter into partnerships.

1.1.2. Stakeholder analysis

Key government stakeholders are:

- at **national level** the main stakeholders are the Ministry of Economy (MoE) and the Ministry of Agriculture (MoA), including its Agrarian Scientific Centre who will be among the project's direct beneficiaries, notably for results 1 and 3;
- at **regional level** (Lankaran ER) – rayons' executive powers (sub-regional heads) and the regional offices of the Ministries of Agriculture and Economy and the Agrarian Scientific Centre in Lankaran who will be (in)direct beneficiaries for results 1 and 3;
- **municipalities** with the potential to animate, consolidate and organize the producers and to support the organised producers (in line with the tasks assigned to them by the Law on cooperatives) and who will be indirect beneficiaries for results 1 and 2.

Cooperation with non-public business oriented and associated stakeholders from the wider civil society in the programme design and implementation will be one of the guiding principles of the project. Business associations of producers (including the Azerbaijan Fruit and Vegetables Producers and Exporters Association - AMTA) and of entrepreneurs (including the National Confederation of Entrepreneurs - ASK) are the direct addressees as well as potential beneficiaries of project interventions.

As target groups and final beneficiaries the action will aim to support:

- producers in the fruit and vegetable sector, producer groups, cooperatives, SMEs, which represent the majority of the private sector actors in rural areas of Lankaran;
- communities of concerns, local action groups, community supported agriculture groups and other civil society actors active in this domain as well as the rural population of Lankaran.

The newly created associations, active in the branch of fruit and vegetables (such as AMTA) demonstrate reasonably high level of capacity. They have already initiated a programme for technical assistance to the sector and have been able to identify and mobilise the required expertise (e.g. by targeting the phytosanitary problems in the hazelnut sector).

This action's objectives, expected results and activities described hereunder constitute the outcome of direct **consultations** held with the key partners of the EU's assistance in Azerbaijan and with the targeted groups of potential beneficiaries. The process of consultations involved a series of group meetings or individual one-on-one expert inquiries and validation sessions with institutional partners, as well as several fact-finding field visits to Lankaran.

1.1.3. Priority areas for support/problem analysis

1.1.3.1. Priority region for support

It is suggested to target EU's support under this programme to the Lankaran Economic Region. According to official data, the lowest regional output production and income per capita was recorded in Lankaran in comparison to other economic regions. Lankaran is a region of high-density population with a relatively high number of rural workforce and considerable potential in the agricultural sector. At the same time, investments per capita are lowest compared to other parts of the country and Lankaran ranks last in the share in per capita business loans.

1.1.3.2. Priority sector for support

The EU action in Lankaran is proposed to target specifically the fruit and vegetable sector. Based on production output, agriculture is the main activity in Lankaran, with agricultural production growing faster in 2010-2015 as compared to the rest of the country. Fruit production is also growing faster whereas the vegetable production is more productive than in other Azerbaijan's regions. The Lankaran economic region has specific advantages and conditions for growing tea and subtropical fruit. In addition, there is significant potential for berry production. The sector's awareness of recent irrational use of arable land (mainly wheat production) is raising, paving the way for more market oriented production patterns that the project may look to support.

1.1.3.3. Problem analysis

To develop the fruit and vegetable sector in Lankaran, some key challenges would need to be addressed:

- **Move towards less centrally managed regional development:** The process of transfer of Government administration and activities down to regional level is ongoing but needs to be complemented by genuine "bottom-up" approaches. Capacities for the attraction of Government support from the regional level remains low. Absorption of the available investment promotion assistance (projects submitted from regions) is less than 8%. The concentration of investments remains focused on Baku (35.1% in 2015 vs. 2.1% in Lankaran)³.
- **Need for better coordination and cooperation among key institutions:** At present various state bodies are involved in "the regional development process" but are doing so in a fragmented manner using their own mechanisms, financial channels and assigned competences while targeting agricultural production and processing. Lankaran could benefit from more joined-up programming, delivery, control and monitoring systems. Spatial planning and zoning policy could be one way to ensure a more holistic approach while increasing legal certainty for (potential) economic operators.
- **Constrained productivity of potentially high value fruit and vegetable crops:** Several problems have been identified at the level of primary production, including poor access to inputs (e.g. new varieties, quality planting material), basic infrastructure, new technologies and knowledge. Consequently, market access for rural SMEs remains restricted. Another problem lies in the lack of knowledge, skills and expertise for the improvement of productivity and environmental sustainability. The present government organizational and physical infrastructure efforts could benefit from strengthened human resources allowing to better understand and respond to the needs of the operators. Embedded services of input suppliers (e.g. advisory activities) are still to be developed.
- **Lack of cooperation in the fruit and vegetables sector:** Cooperation within Lankaran's horticultural sector is virtually absent, due to lack of leadership among rural SMEs and limited interest of larger operators to engage in corporate integration and own-grower responsibility schemes. However, the AMTA business association strives for an ambitious programme to strengthen cooperation among sector players and this could be further supported through EU assistance.

3 ANFES Annual report (2015).

- **Limited availability of market information.** Public market data collection systems are at an elementary phase. Volume of product in function of time and technical parameters is not tracked. Data availability is dependent on institutional presence in the field and on the performance of public resources (no office no data). At the same time, on the private side market information starts to flow and even small businesses are able to base their production decision on information they manage to get themselves. However, low level of cooperation and integration prevents in-sector information exchange and there is consequently strong potential for improvement.

2 RISKS AND ASSUMPTIONS

| Risks | Risk level (H/M/L) | Mitigating measures |
|---|--------------------|--|
| Discontinuation of economic diversification reform agenda | L | Continuous policy dialogue and support to implementation of the Economic Reforms Roadmap |
| No coherent approach towards regional development, linking micro support (to farmers/SMEs), meso support (to associations and networks) and macro support (to the regional and national government) to regional development in an integrated manner | M | Holistic design of the action integrating different levels and areas of regional development allowing for cross-fertilisation of innovative community led approaches that can feed into the Government support and policy formulation |
| Inadequate coordination between different local stakeholders involved in building local economy networks and communities of concern for spatial planning | M | Ensured involvement of all stakeholders in the programme design and implementation (mainly through participation of active representatives of the private sector, civil society organizations and social partners) |
| Local communities, civil society organisations, farmers and prospective entrepreneurs are not fully involved in the process | L | Establishment of a coordination and networking mechanism, which will increase the flow and velocity of information exchange between stakeholders and allow them to take more evidence-based decisions in terms of production and marketing |
| Assumptions: | | |
| <p>The programme assumes that the Government of Azerbaijan remains committed to its policy to ensure macroeconomic stability.</p> <p>The action also assumes that the Government stays committed to finalizing the North South Corridor in terms of infrastructural investments and the agenda to develop services around them.</p> <p>Based on the recently formulated and initiated policy to strive for data oriented agricultural support, the action assumes that the Government continues to widen the scope of publically available and open data, including the increase in the number of available data sources utilized in the production of spatial plans.</p> <p>The Government is also assumed to stay committed to implement the State Programme for Agricultural Cooperation supporting various modes of cooperation initiatives (producer groups, associations, contract farming, community supported agriculture, micro-clusters). In addition, it is expected that the legal framework enabling an easier registration of associations is enforced. Finally, it is assumed that the Government remains committed to the recently undertaken initiative on land consolidation.</p> | | |

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1. Lessons learnt

Experience with past EU assistance in Azerbaijan for regional and rural development highlights the importance of ensuring an integrated approach, linking micro and meso levels through the development of capacity of intermediary organisations/collaborative undertakings. By mixing bottom-up support (in the establishment and further development of collaborative undertakings in the fruit and vegetable sector) and support for strengthening the enabling environment (R3) and spatial planning in Lankaran (R1), this issue has been taken into account in the design of this programme.

Aligning EU support with existing government reform commitments is important to ensure sustainability of results. Some of the previous regional/rural development sector programmes, such as the sector budget support programmes in the areas of agriculture and rural development (Annual Action Programme - AAP 2009) and regional development (AAP 2011), have had a more limited impact with regard to certain areas for rural development reforms, e.g. food safety and access to finance due to the absence of genuine reform commitments. The current economic crisis context has led the government to prioritise the agricultural sector for the diversification of the economy and has demonstrated genuine reform will in several areas related to this programme. All expected results of the EU4Lankaran programme are fully integrated in the Economic Reforms Roadmap adopted by the President in December 2016.

Another important lesson to take from recently designed programmes is the government's tendency to prescribe the development of certain crops in a distinct region, which may result in producers following the signals of the government, rather than signals of the market. This risk needs to be avoided with the current action to benefit from a holistic, sectoral and multi-institutional approach at regional level.

Experience from recent interventions in the area of self-governance suggests that support to municipalities is successful when using their animating functions in the process of local economy networks organization.

3.2. Complementarity, synergy and donor coordination

The foreseen programme will **complement** and build on the work of past, ongoing and planned EU support interventions, notably in the areas of regional development planning and enabling environment for rural (business):

Regional Development Planning

- AAP 2011 (Regional Development Support Programme - RDSP) helped putting in place the building blocks for regional development planning by supporting the establishment of regional branches of the Ministry of Economy. The branch of the Ministry of Economy in Lankaran will be one of the main beneficiaries of the EU4Lankaran programme.
- AAP 2012 (Pilot Regional Development Programme -PRDP) has piloted – together with the Ministry of Economy and its branch office in Yevlakh a participatory inclusive bottom-up approach involving key local stakeholders to prepare a development plan for the Aran region. The EU4Lankaran programme intends to build and extend on this community based approach for the development and modernisation of Lankaran's spatial planning system.
- AAP 2013 (Support to Regional and Rural Development in Azerbaijan - SRRD) introduced the approach of territorial planning around selected agricultural value

chains. EU4Lankaran will notably be able to utilize the experience and knowledge garnered in the SRRD programme in strengthening value chains in the fruit and vegetable sector in Khachmaz, Goychay and Shamaxi rayons (sub-regional level).

Enabling environment for rural businesses

- AAP 2015 (Integrated Regional Development in Azerbaijan - IRDA) foresees support to improve access to finance for rural SMEs through targeted support to the country's Entrepreneurship Fund (ANFES). The EU4Lankaran will also be able to build on IRDA's efforts to professionalise agricultural advisory services while the impact and outreach of the foreseen rural business information system to be developed under IRDA will be further enhanced under EU4Lankaran by supporting/encouraging local start-ups to use its data to develop web-services.
- AAP 2016 (Technical Cooperation Facility) aims to strengthen the enabling environment for SMEs by inter alia supporting the provision of targeted export promotion measures and through the provision of policy support.

The programme can be also linked to regional programmes, in particular:

i) Mayors for Economic Growth programme, which will design local economic development plans;

ii) The relevant EU4Business projects, notably

- the future 2017-2020 project "Integrating SMEs from the EaP countries into domestic and global value chains" to be implemented by the International Trade Centre (ITC), which will assist SMEs in producing value-added goods in accordance with international and EU market requirements; while linking them with buyers from domestic and global value chains and markets, in particular within the EU;
- the East Invest II project (which focusses support mainly at the level of intermediary organisations and business support organisations);
- EBRD-implemented Small Business Support (supporting SMEs with consultancy support);
- EBRD implemented Women in Business Programme (providing TA to banks and training women entrepreneurs);

iii) The "Greening Economies in Eastern Neighbourhood", the "EU Water Initiative Plus for Eastern Partnership", and other on-going and future environment, climate and water related programmes that have contributed and will continue to work towards establishing the knowledge and legal basis for a more sustainable development, aligned with the needs to implement Sustainable Development Goals and the Paris Climate Agreement.

In the field of rural and regional development, the activities of the **donor community**⁴ most relevant for the EU4Lankaran are those of the World Bank targeting agribusiness value chain development and financial services to agribusiness with its ACIP⁵ programme. Around 20 agricultural value chains will be financed throughout all regions of Azerbaijan and the results/lessons learnt from the programme can be an important input for the EU4Lankaran Programme. GIZ is also involved in regional development mainly in the area of local-self-governance reform (via a project for Private Sector Development in the South Caucasus), capacity building of local authorities and participatory land-use planning as well as in private

⁴ The EU Delegation has been chairing the Agriculture and Rural Development Donor Group since 2013. It is also a member of the private sector and trade donor group, chaired by SECO.

⁵ Agricultural Competitiveness Improvement Project.

sector development in the non-oil sector covering the agro-food processing industry and related services. EU4Lankaran can build on the experience of GIZ in working with/strengthening local authorities in the establishment and coordination of agricultural networks. The EBRD has successfully launched the Azerbaijan Agricultural Finance Facility (AzAFF) to support the current drive to develop agriculture in the country, with EU support for the technical assistance of the project funded from the Neighbourhood Investment Facility.

EU4Lankaran's target of setting up local economy networks is partly covered by Switzerland's Agency for Development and Cooperation (SDC) together with State Secretariat for Economic Affairs (SECO), which focuses on enhancing economic development. Finally, IFAD's support for disadvantaged rural communities via an ongoing Integrated Rural Development Project⁶ (operating in Sheki) could work as a source of practical evidence on addressing disadvantaged regions, as is Lankaran.

Moreover, the spatial planning element present in the EU4Lankaran programme will be able to pilot possible mechanism of land consolidation to be developed by that time by the recently launched FAO project supporting the government in this domain and following up on a TAIEX event on this issue in 2016. TAIEX could also further complement the activities of EU4Lankaran, particularly in the areas of export promotion; capacity building for association of growers, including cooperation between big and small producers; and EU standards on production (for access to the EU market).

3.3. Cross-cutting issues

Sustainability of regional development processes powered by better organized, modernized and competitive sectors must find solid ground in the proper management of natural resources, in particular land, water and surrounding natural habitats. For this reason, as a cross-cutting issue of the action *environmental protection*, in particular the sustainable use of natural resources, links all elements of the envisaged assistance and in turn is strongly dependent upon the active engagement of communities of interest in critical risk areas. Improved spatial planning (result 1), better functioning value-chains (result 2), including better logistics, and modern fruit and vegetable production technology (result 3) will contribute to all Rio Convention markers, i.e. biological diversity, combat desertification, and climate change mitigation and adaptation.

Gender will be horizontally addressed at all layers of programme implementation, at formulation of eligibility criteria and in the scope of projected assistance. In particular, the role of rural women in disseminating know-how, financial inclusion, literacy and the collaborative approach is taken into account, as it is important in the process of animation (an important element in building up of communities of interest and local economy networks). Rural women who are facing disproportionately high unemployment or constrained access to education are particularly targeted by the action. Through the intended project results EU4Lankaran intends in particular to support the development of agricultural SMEs owned by women and encourage and support women-led collaborative undertakings in the fruit and vegetable sector in Lankaran and will include these as result indicators to be monitored throughout the project duration.

The action will take into account the *rights based approach*: It will be targeting vulnerable groups by better organising small farmers into collaborative producer forms, by increasing productivity and competitiveness of the fruit and vegetable sector in Lankaran and through

⁶ The IFAD's project targets rehabilitation of irrigation, general agricultural development and agricultural finance in selected rayons.

this impact on youth employment and women empowerment in the Lankaran economic region. The action will also contribute to enhanced access to information and participation in decision making of vulnerable groups. Smallholder farmers, including IDPs, women and youth in the rural areas of Lankaran are likely to benefit from the action's activities.

4 DESCRIPTION OF THE ACTION

4.1. Objectives/results

4.1.1. Overall objective

The overall objective is to support Government efforts in the diversification of the economy while promoting balanced and inclusive growth of economically sound regions.

4.1.2. Specific objective

The specific objective is to sustainably enhance the competitiveness and value-added of the fruit and vegetable sector of the Lankaran Economic Region.

4.1.3. Results

The action aims to achieve the following results:

- Result 1: System for regional spatial planning improved
- Result 2: Network of local economic and community cooperation hubs established and modernised
- Result 3: Lankaran's entrepreneurial and investment conditions in the fruit and vegetable sector improved

4.2. Main activities

Result 1: System for regional spatial planning improved

- Support to the development of a spatial plan for the Lankaran region based on community-based initiatives, community-identified needs in infrastructure, resources and the natural environment, taking into account the sustainability principles and specific tools;
- Policy advice and capacity development support in the preparation, development, implementation and monitoring and evaluation of a system for regional spatial planning in line with EU standards and best practices, including those related to nature conservation, effective water resources management, and other environment and climate-related goals.

Result 2: Network of local economic and community cooperation hubs established and modernised

- Raising awareness among Lankaran's fruit and vegetable producers about the benefits of collaborative undertakings for economic gains such as wider market outreach, easier and cheaper access to inputs (seeds, fertilisers, etc.) and to knowledge/innovation;
- Support and advice in the establishment and development of collaborative undertakings and dissemination of best practices;
- Provision of key technology and capacity development support to selected collaborative undertakings in the fruit and vegetable sector in Lankaran, also taking full account of environmental sustainability and climate change adaptation needs.

Result 3: Lankaran's entrepreneurial and investment conditions in the fruit and vegetable sector improved

- Support to the Ministry of Agriculture and its agricultural research center in the provision of better applied agricultural research, including through a pilot micro-research programme in Lankaran's agricultural research center that would cover, among other things, more environmentally sustainable and climate-proof methods of agricultural production;
- Inventorising and supporting partnerships between businesses, e-service providers, public data holders and local economy networks in order to strengthen availability of rural market information in Azerbaijan;
- Policy advice and capacity development support in the introduction of regional profiling in Lankaran.

4.3. Intervention logic

The action aims to address in a comprehensive manner the key challenges affecting the competitiveness and quality of Lankaran's fruit and vegetables produce. The action will be performed through a set of activities comprehensively addressing the need to better organize Lankaran's economic actors in the fruit and vegetable sector (R2) and to provide them with more opportunities for growth arising from better resources, products and enabling environment (R1&3). The action will support public and private actors at national, regional and local level using a combination of EU expertise and grant assistance to support enhanced competitiveness of Lankaran's fruit and vegetable sector in a comprehensive and sustainable manner.

5 IMPLEMENTATION

5.1. 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 Regulation (EU, Euratom) No 966/2012.

5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3. Implementation modalities

5.3.1. Grants: call(s) for proposals for a Twinning project on strengthening the quality, safety (sanitary and phytosanitary (SPS) standards) and competitiveness of Azerbaijan's fruit and vegetable produce (direct management)

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

The Twinning call(s) for proposals modality will be used for implementing part of the activities foreseen under Result 3, in particular to strengthen applied agricultural research.

(b) Eligibility conditions

In line with Article 4(10)(b) of Regulation (EU) No 236/2014, participation in Twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are technical expertise of the applicant and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for Twinning grant contracts is 100%⁷.

(e) Indicative timing to launch the call: T1 2019.

(f) Use of lump sums/flat rates/unit costs

Twining contracts include a system of unit costs and flat rate financing, defined in the Twining Manual for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a Twining contract, is authorised through horizontal Commission decision C(2017)1122.

5.3.2 Grants: call for proposals in support of enhancing competitiveness, collaborative undertakings and modernization of the fruit and vegetable sector in Lankaran (direct management)

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

Objective of the call for proposal under Result 2 will be to professionalize and modernize the grouped formations of growers and processors in order to tackle their key technological and capacity constraints in both, increasing productivity and reaching the market with a safe and competitive produce. This call for proposals is foreseen to support community-driven agricultural connections, needs assessment and the aggregated formulation of investment and modernization priorities of the networked farmers.

(b) Eligibility conditions

The call will be opened to local economy networks (in various forms of cooperation and association). Eligible entities will include CSOs such as community based organizations, business associations, producer groups, farm circles, machinery sharing rings, cooperatives, farmers markets (non-exhaustive list), as well as international 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

⁷ As provided for in the Twining Manual.

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

In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call: T1 2020.

5.3.3. Procurement (direct management)

| Subject | Type (works, supplies, services) | Indicative number of contracts | Indicative trimester of launch of the procedure |
|--|----------------------------------|--------------------------------|---|
| <u>System for regional spatial planning improved (Result 1) and Lankaran's entrepreneurial and investment conditions in the fruit and vegetable sector improved (Result 3)</u> | Services | 1 | T1 2019 |
| <u>Network of local economic and community cooperation hubs established and modernised (Result 2)</u> | Services | 1 | T1 2019 |
| Evaluation and audit | Services | 3 | T3 2020 T2 2024 |
| Communication and Visibility | Services | 1 | T1 2020 |

5.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5. Indicative budget

| | EU | Indicative third party |
|--|----|------------------------|
| | | |

| | contribution (in EUR) | contribution (in EUR) |
|--|----------------------------------|----------------------------------|
| 5.3.1 Call(s) for proposals for a Twinning project on strengthening the quality, safety (Sanitary and Phytosanitary - SPS) and competitiveness of Azerbaijan's fruit and vegetable produce (direct management) | 1 500 000 | N.A |
| 5.3.2 Call for proposals in support of enhancing competitiveness, collaborative undertakings and modernization of the fruit and vegetable sector in Lankaran (direct management) | 5 000 000 | 555 555 |
| 5.3.3 Procurement (direct management) | 6 000 000 | N.A |
| 5.8 Evaluation, 5.9 Audit | 350 000 | N.A. |
| 5.10 Communication and visibility | 150 000 | N.A. |
| Contingencies | 500 000 | N.A. |
| Total: | 13 500 000 | 555 555 |

5.6. Organisational set-up and responsibilities

A Steering Committee (SC) will be established in order to steer and monitor implementation of the programme. It will be co-chaired by the MoE and MoA with the participation of other national and regional relevant stakeholders. Exact composition will be decided upon the start of the programme implementation together with the co-chairs.

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 (2015 figures) and by the status-report which was commissioned by the EU Delegation to Azerbaijan for the preparation of the AAP 2017.

MoE and MoA will be jointly in charge of monitoring and steering all components supported under the programme and will ensure that adequate coordination mechanisms between concerned institutions at national, regional and local level are established for all three results of the programme.

5.7. Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for

independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8. Evaluation

Having regard to the importance of the action, a mid-term and an ex-post evaluation will be carried out for this action or its components via independent consultants.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action addresses a variety of innovative interventions based on smart specialization concept of a selected area/sector of regional development.

The Commission shall inform the implementing partner at least two months in advance of the dates foreseen for the evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, two contracts for evaluation services shall be concluded in the fourth quarter of 2020 (mid-term) and in the second quarter of 2024 (ex-post).

5.9. Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in the second quarter of 2024.

5.10. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5. above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the action and the appropriate contractual obligations.

Appendix 1: Indicative Logframe Matrix