

ANNEX 1

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

Action Fiche for Framework programme in support of EU-Azerbaijan Agreements

1. IDENTIFICATION

Title/Number	Framework programme in support of EU-Azerbaijan Agreements CRIS number: ENPI/2013/024-494		
Total cost	Total estimated cost: EUR 15,000,000 Total amount of EU budget contribution: EUR 15,000,000		
Aid method / Method of implementation	Project Approach and Call for Proposals Direct centralised management (grants – call for proposal; procurement of services)		
DAC-code	15110	Sector	Public sector policy and administrative management

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The overall objective of this framework programme is to strengthen the institutional capacity of selected public administration institutions in Azerbaijan to implement reforms under the current EU-Azerbaijan agreements and the future agreements offered under the Eastern Partnership (EaP).

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. The main aspiration stated by the President of Azerbaijan is to double the GDP in the next ten years via growth in the non oil sector and attain the status of a high income country. Compared with other countries of the Caucasus or Commonwealth of Independent States (CIS), the

Azerbaijani economy is less diversified: the share of oil and gas sector accounts for about 95% of total export and over 50% of GDP.

As a result of this strong growth and targeted social assistance programmes, the poverty rate has dropped fivefold, from 44.7% in 2003 to 6% in 2012, according to official figures (to be taken with caution). According to official statistics, the unemployment rate is 5.4% and inflation within single digits (1.1% in 2012). 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. Following its repeated classification as upper middle-income country, Azerbaijan has lost its status under the GSP+ system at the beginning of 2013.

Azerbaijan's Human Development Index (HDI) is 0.731, which gives the country a rank of 76 out of 187 countries with comparable data. The HDI of Europe and Central Asia as a region increased from 0.644 in 1980 to 0.751 today, placing Azerbaijan below the regional average.

2.2.1.2. National development policy

The “State Programme on Poverty Reduction and Sustainable Development” (SPPRSD), approved by Presidential Decree on 15 September 2008 and the Development Concept “Azerbaijan 2020: A Look into the Future” (in the following referred to as “Vision 2020”) are the main strategic documents providing the overall priority-setting and development framework of the country.

Among the main priorities listed in the "Vision 2020" are such diverse areas as: development of a highly competitive economy, balanced development in the regions, development of information-communication technologies and transition to e-society, development of human resources and social fields (health, education, social protection, youth), improvement of legislation and strengthening of institutional capacity, civil society development, protection and efficient use of cultural heritage, and environmental protection and ecological issues.

“Vision 2020” will be implemented via different sector programmes that will be developed in the course of 2013 and the following years.

2.2.2. *Sector context: policies and challenges*

Legal reforms have not kept up with the high economic growth rate. Capacity constraints and lack of political will regarding many good governance related areas result in superficial and limited reform measures, which in turn hamper sustainable economic development and diversification efforts.

The Government of Azerbaijan recognises that approximation to EU standards and best practices is a solution to tackle these constraints, and acknowledges the need for EU assistance in this, as reflected in the Government of Azerbaijan's signature of the Memorandum of Understanding on the 2011-2013 National Indicative Programme (NIP).

This commitment is also reflected in Government of Azerbaijan strategies, most prominently in the Action Plan for Legal Approximation, which sets out a timetable

for legal approximation in areas under these agreements, or the “Vision 2020” development strategy, particularly chapter 8, which refers to ‘Improvement of legislation and reinforcing institutional capacity.’

This commitment was reaffirmed in the participation of Government of Azerbaijan in the EaP initiative, which presented additional opportunities for co-operation including the offer of higher level agreements such as an Association Agreement (AA); a Deep and Comprehensive Free Trade Area (DCFTA) Agreement; and Visa Facilitation and Readmission agreements.

While the EU has historically provided regular assistance in the approximation to EU standards and sees the need to continually do so, with the arrival of the offer of the new contractual relations under the EaP, it was clear that substantial institutional building efforts for institutions tasked with their negotiation and implementation were necessary. In response, the EU earmarked EUR 19 million of the 2011-2013 NIP for the Comprehensive Institution-Building (CIB), to assist the Government of Azerbaijan with institution building for a number of core institutions central in preparing for the new EU-Azerbaijan agreements. The Government of Azerbaijan's commitment to this process was confirmed through the signature of a Memorandum of Understanding on the CIB “Framework Document” in January 2011, with co-ordination of the CIB assigned to the Ministry of Foreign Affairs.

CIB funds will be spent on the basis of priorities identified in Government of Azerbaijan Institutional Reform Plans (IRPs) in areas reflecting the EaP agreements. These are:

- IRP1: "Strengthening the institutional capacities of Azerbaijan to lead the negotiation process over the new agreements offered under the EaP and to sustain their future implementation, as well as advancing the trade and economic integration with the EU";
- IRP2: "Enhancing the enforcement of human rights and fundamental freedoms and the overall system of rule of law, and supporting the process of negotiating, implementing and sustaining the commitments taken through the negotiations on Visa Facilitation and Readmission agreements";
- IRP3: "Strengthening the civil service training in Azerbaijan with a focus on EU affairs".

Work on IRPs is proceeding: IRP3 was adopted in April 2012 and implementation has already started. IRP2 was adopted in July 2012 and discussions are ongoing on identifying interventions and modalities, with contracting planned to start in mid-2013. IRP1 will be adopted by the Government in the first semester of 2013.

Similar “Framework Programmes in support of EU-Azerbaijan agreements” were established under the Annual Action Programmes (AAP) 2011 and 2012. Funds from the three programmes are used in a complementary way.

2.3. Lessons learnt

While Azerbaijan has demonstrated absorption difficulties in NIP allocations thus far, these have been mainly in programmes implemented through Sector Budget

Support, compounded by lack of progress in genuine Public Finance Management (PFM) reform dialogue. For this reason this aid modality is not foreseen under the current Annual Action Programme.

The Twinning instrument, on the other hand, has proven to be an effective tool for mobilizing EU expertise in areas related to institutional reforms, and the transfer of EU best practices is well appreciated in Azerbaijan.

This is reflected in the positive findings of an independent evaluation of the Twinning Instrument in Azerbaijan carried out in October 2012. After surveying almost half of the 21 past and ongoing Twinning interventions in Azerbaijan, the evaluation concluded that Twinning projects are well implemented, achieve their mandatory results, and have long term and sustainable impacts on the beneficiary institutions. It also identified some challenges such as the long formulation phase for Twinning projects and the danger of letting the instrument be too 'demand-driven' and therefore result in reducing the political relevance of the projects selected.

On this basis, further use of the implementation modality will be encouraged in this framework programme. To follow-up on the evaluation findings, more emphasis will be placed on the formulation phase of new Twinning projects and an improved joint planning procedure with the Government has been put into place. More emphasis will be put on complementarity with bilateral interventions, where appropriate and the sequencing of TAIEX, Technical Assistance and Twinning interventions.

2.4. Complementary actions

All activities under this programme will be closely co-ordinated with and will build on the results of interventions and support by other donors in the relevant sectors. In order to ensure complementarity of actions and avoid duplications of efforts with respect to future CIB activities, the EU Delegation closely involved relevant civil society organisations, international organisations and EU Member States in the formulation of the Institutional Reform Plans.

The foreseen interventions will complement ongoing support operations in the fields of justice, agriculture, rural and regional development, Twinning, and technical assistance initiatives, as well as other ongoing and planned activities, e.g. financed under thematic instruments, such as the European Instrument for Democracy and Human Rights or the Non-State Actors and Local Authorities in Development (NSA/LA) programmes. The CIB component will specifically complement activities under AAP 2011 and AAP 2012 for which EUR 9.8 million have already been allocated towards the implementation of IRP2 and IRP3.

2.5. Donor co-ordination

In the absence of a Government-led donor co-ordination mechanism, the EU Delegation has initiated donor co-ordination meetings on a regular basis. Currently, seven thematic donor co-ordination areas exist on: non-oil sector & trade; agriculture; environment; health; energy; public finance management & macro-economics; good governance and rule of law. Presently, the Government is only participating in ad-hoc manner in some of the subgroups.

International organisations, diplomatic missions and international financial institutions are invited to the relevant donors' meetings. A key outcome of these

meetings is sharing information and consultation on sector specific issues, which has reduced duplications and overlapping. The EU Delegation is also organising quarterly co-operation co-ordination meetings with the EU member states. Moreover, EU Member States and relevant international organisations have been consulted on the development of the individual Institutional Reform Plans under the CIB. Involvement of these and other stakeholders as observers to the respective CIB Steering Committees is envisaged.

3. DETAILED DESCRIPTION

3.1. Objectives

The overall objective of this framework programme is to strengthen the institutional capacity of selected public administration institutions in Azerbaijan to implement reforms under the current EU-Azerbaijan agreements and the future agreements offered under the Eastern Partnership.

The **specific objectives** of this programme are the following:

(I) to support the relevant institutions within the Azerbaijani administration to comply effectively with the commitments set forth in the EU-Azerbaijan ENP Action Plan, the Partnership and Co-operation Agreement (PCA) and other EU-Azerbaijan agreements;

(II) to ensure effective institutional building of core institutions central in preparing the ground for and implementing the future EU-Azerbaijan Agreements, including the AA, the Visa Facilitation and Readmission Agreements, and possibly the DCFTA.

3.2. Expected results and main activities

Expected results

I. Implementation of the ENP Action Plan

Public administration of Azerbaijan is strengthened and able to meet European standards and implement commitments foreseen by bilateral agreements between Azerbaijan and the EU.

II. Implementation of new EU-Azerbaijan agreements

Key governmental institutions have been strengthened through the CIB and are better able to sustain the commitments taken under the ongoing negotiations on the EU-Azerbaijan Association Agreement, the Visa Facilitation and Readmission agreements and the DCFTA.

Project interventions under this framework programme are monitored and evaluated to identify and formulate feasible actions for follow-up.

Main activities

I. Implementation of the EU-Azerbaijan ENP Action Plan and other EU-Azerbaijan agreements

- Capacity building to institutions involved in regulatory approximation and reforms in areas covered under the EU-Azerbaijan agreements, including the Commission for European Integration.
- Technical assistance in support to the Programme Administration Office (PAO) at the Ministry of Economic Development.

II. Support to implementation of CIB

- Implementation of the three IRPs, with special emphasis on IRP1 (market, trade and economic reforms) and IRP3 (civil service training) foreseen in the CIB for Azerbaijan.
- Support to the Ministry of Foreign Affairs and to the structure expected to be set up for the overall co-ordination of the Association Agreement and the CIB.

3.3. Risks and assumptions

This programme assumes that Azerbaijan will continue to reform its administration and is committed to its overall reform path. There is a general risk that Azerbaijan may shift away from this path, which at the moment remains low. This risk can be mitigated by i) better explaining the benefits of the EaP to the Government, and ii) engaging in and continuing the policy dialogue in the concerned sectors.

Based on experience, delays could also be expected in signing the financing agreement and during implementation. To mitigate this risk and avoid further delays, the EU Delegation is actively supporting the Government by pursuing a high-level results-oriented dialogue with decision makers.

3.4. Cross-cutting issues

In the preparation and implementation of projects under this framework programme, special attention will be paid to ensure gender equality, sustainable environment, good governance/anti-corruption measures and human rights safeguards through in-built trainings and adapted indicators.

Concretely, the ongoing co-operation with the relevant working groups under the State Commission on European Integration of the Republic of Azerbaijan will be used to ensure the implementation of cross-cutting issues within projects under this programme.

Anticorruption is a focus of all IRPs per se, human rights are targeted in the framework of IRP 2.

3.5. Stakeholders

The Ministry of Economic Development in its role as the National Co-ordinator for EU Assistance to Azerbaijan co-ordinates the various programmes and projects funded under the NIP for the country. In this, it is assisted by the ministry's Programme Administration Office (PAO), which oversees the programming and the implementation of the Twinning instrument for the Government of Azerbaijan.

The Ministry of Foreign Affairs, in its capacity as national CIB Co-ordinator, and the Ministry of Economic Development are the key interlocutors for the development of the CIB.

The main stakeholders of the IRP 1 are the Ministry of Economic Development and Ministry of Foreign Affairs. Other stakeholders are State Customs Committee; State Committee for Standards, Patent and Metrology; State Public Procurement Agency; Ministry of Agriculture; State Copyrights Agency; Ministry of Taxes; E-governance Agency (non-exclusive list depending on the final version of IRP1). The Ministry of Justice was nominated the lead institution for IRP2, while the Azerbaijan Diplomatic Academy and the Civil Service Commission will be the sole beneficiaries of IRP3.

As the CIB is also open to funding by other donors, e.g. EU Member States and international organisations, the list of key stakeholders could increase over time. Institutional capacity of the CIB beneficiaries has been self assessed by the Government of Azerbaijan when the CIB Framework Document was drawn up.

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

This programme will consist of two components:

- I. Implementation of the ENP Action Plan
- II. Implementation of CIB

Each component will be implemented through Twinning grants call for proposals and service procurement contracts.

Under the CIB, and in the framework of the implementation of each IRP, a financial contribution of at least 20% (parallel procurement) will be required whenever EU funding is used for supply of EU norm driven equipment.

4.3.1. *Grants: call for proposal for Twinning projects (direct centralised management)*

Under the present programme, it is expected to conclude up to 10 Twinning grant contracts.

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

The Twinning calls for proposals modality will be used for implementing actions under objectives defined in section 3.1.

The activities and expected results of the Twinning calls for proposals will be in line with the expected results and activities defined in section 3.2.

- (b) Eligibility conditions

In line with Article 15(2)(a) ENPI, 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 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 the 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%¹.

- (e) Indicative timing to launch the calls

The launch of the calls for proposals is indicatively planned for 1st and/or second half of 2015, depending for each Twinning call for proposals on the time needed to finalise the Twinning fiches, to conduct the Twinning call for proposals and to prepare the corresponding Twinning grant contracts. Twinning activities are expected to end in 2017.

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

Twining contracts include a system of unit costs, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. This system of unit rates exceeds the amount of EUR 60,000 per beneficiary of a Twinning contract.

4.3.2. Procurement (direct centralised management)

Subject	Type	Indicative number of contracts	Indicative trimester of launch of the

¹ As foreseen for in the Twinning Manual.

			procedure
Technical assistance for the implementation of ENP AP and CIB	Services	Up to 13	2/2015

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 basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the ENPI 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

Categories	EU funding (in EUR)
Component I (ENP AP) , of which indicatively	5.6 million
<i>i) Twinning Calls for Proposals</i>	5.0 million
<i>ii) Procurement (direct centralised)</i>	0.6 million
Component II (CIB) , of which indicatively	9.15 million
<i>i) Twinning Calls for Proposals</i>	6.0 million
<i>ii) Procurement (direct centralised)</i>	3.15 million
Evaluation and Audit	0.15 million
Communication and Visibility	0.1 million
TOTAL	15 million

4.6. Performance monitoring

The Commission may carry out Results Oriented Monitoring (ROM) via independent consultants, starting from the sixth month of project activities, which will be finalised at the latest 6 months before the end of the operational implementation phase.

For overall monitoring of the implementation of the CIB, a Steering Committee for each IRP will be set up to involve all national stakeholders and donors, as well as all relevant project representatives. Progress on the CIB is also monitored in the annual EU-Azerbaijan Sub-Committee on Justice, Rule of Law and Human Rights. Progress on Twinning activities are reviewed by the EU, the beneficiary and the implementing

Member State administration in the framework of regular steering committee meetings.

4.7. Evaluation and audit

Evaluation and audit will be decided by the European Commission on a case-by-case basis and will be carried out with the support of technical advice of external consultants recruited by the Commission.

4.8. Communication and visibility

Each project prepared and contracted under this framework programme will have its own communication and visibility component and budget, according to the Communication and Visibility Manual for EU External Actions. In addition, funds are reserved to ensure overall visibility of the actions under this framework programme.