

Initial Concept Note
Potential priority areas for ENPI National Indicative Programme (NIP) for the Republic of Azerbaijan 2011-2013

Introduction

The National Indicative Programme (NIP) for the Republic of Azerbaijan 2007-2010 sets out the key priority areas for EC assistance to Azerbaijan. As this will expire in 2010, a new NIP to cover 2011-2013 needs to be prepared¹.

This paper aims to list potential priority and sub-priority areas for the new NIP on the basis of the EU- Azerbaijan ENP Action Plan and the Country Strategy Paper for 2007-2013. The Action Plan, jointly agreed in Nov 2006, sets out the strategic objectives of the cooperation between Azerbaijan and the EU, and therefore forms the basis for intensive EU- Azerbaijan cooperation. The Country Strategy Paper outlines the priorities of the EC assistance to Azerbaijan, drawing together all financial instruments. A mid term review of the document has assessed that the priorities of the CSP largely remain valid for the next programming period of 2010-2013. However, in addition the new priorities of the bilateral track of the proposed Eastern Partnership are taken into account to reflect the broader policy framework of the EU-Azerbaijan relations in 2010-2013.

This paper aims to identify key priority areas in need of financial assistance, which could be financed under the national envelope of the European Neighbourhood and Partnership Instrument (ENPI). These may include areas for which follow-up assistance is desired to previous EC programmes. In total, a maximum of three overall priority areas can be identified in the NIP. As this indicative programme will be valid for three years, the aim should be that no more than three sub-priorities are identified per priority.

This paper will be used as a basis for initial discussions with the government of Azerbaijan, other stakeholders including Civil Society, EU Member States, and other donors, with a view to identifying the key priorities and sub-priorities for EC assistance under the ENPI for 2011-13.

The conclusions drawn in this paper for each sector represent an initial desk-assessment for further discussion with stakeholders. The EC welcomes input from all stakeholders on specific needs and opportunities which there are in key areas, on areas of the highest priority, on areas which may need better coordination, and input on the lessons that stakeholders have learned in key areas.

¹ This process will be carried out for all ENPI countries during 2009.

Next Steps

Initial feedback to the concept note is expected from the government, and other stakeholders and donors. The inputs required are views from stakeholders on the needs and possibilities for assistance in key areas, which will be analysed in order to propose a set of priority areas for inclusion in the NIP. On this basis, the draft NIP will be drafted. The programming mission to discuss the draft will take place in early April 2009 with officials from the Commission visiting Azerbaijan for discussions with the government, and other stakeholders and donors.

Lessons Learned

Due to the comparatively long lead-in times for the implementation of EC programmes, no projects under the current NIP have been completed in Azerbaijan at this time. Therefore, there are no lessons learned from ENPI for the time being.

Azerbaijan has had considerable budget surplus over the past years due to the high prices of hydrocarbons. Due to high public expenditures, it has been able to afford considerable public investments. It has done successful economic reforms, while there has been only limited progress on the political reforms, notably in the area of human rights, the fundamental freedoms and the rule of law. Recently, the government's focus has been on the diversification of economy.

As compared to other donors, the EC sees its comparative advantages in areas such as democratisation and the rule of law, institution building including public administration reform, public finance management, alignment with EU standards and regulatory reform, promoting economic and social cohesion and diversification of economy.

The Neighbourhood Investment Facility has been established by the EC to provide grant funding in support of lending operations by International Financial Institutions, and this, rather than the ENPI National Programme should be the key source of EC funding for infrastructure construction and for large investments in energy, transport and environment sectors. Initially, Azerbaijan will benefit from a new NIF project supporting Financial Intermediaries. In the future, there seems to be huge potential for the transport and energy projects.

Key horizontal issues representing global policy priorities for the EU such as Climate change, Migration, Aid for Trade, Rising Food Prices and Drugs will be considered in the drafting process. Whenever possible these issues should be included under other priorities rather than leading to the definition of specific priorities and sub-priorities.

Donor Coordination and aid effectiveness

The EU should operate to offer its support and expertise in legislative reform and approximation and institutional capacity building through instruments such as Twinning, and through larger programmes to support wider sector reform. Where appropriate, other EU Member States are encouraged to participate in joint programming processes in order to maximise the impact of donors.

Areas which require only small-scale assistance should not be identified as priorities in the NIP but will be discussed with other donors. An exception to this may be made when sub-priority areas are identified under the heading of legislative reform, approximation, and institutional capacity building, which can be pursued using the twinning instrument.

Civil Society Cooperation

The EC has dedicated instruments for funding civil society projects, notably the European Instrument for Democracy and Human Rights, and the Thematic Programme for Non-state Actors and Local Authorities in Development, and these should remain the primary funding mechanisms for civil society organisations (CSOs) looking for project funding.

CSOs have several important roles to play in the process of developing the new NIP. Their advice, information and expertise in key areas is extremely useful in understanding and defining priorities. CSOs have a role in monitoring the progress made both by the government of Azerbaijan and donors such as the EC. The process of developing the new NIP should go beyond obtaining input from CSOs, and promote dialogue not just between the EC and CSOs, but between Civil Society and the government of Azerbaijan as well.

Potential priorities of intervention

- **Support for Democratic Development and Good Governance, including Institution Building²**
 - Rule of law and judicial reform
 - Public administration reform and public finance management
 - Anti Corruption
 - Human rights, civil society development and local government

²Support for democratic development and good governance is the first priority area in the current NIP.

EC Assistance

The EC is preparing a Sectoral Budget Support to Justice Reforms with 16M€ (AAP 2008). Twinning programmes will shortly be launched to support the Anti-corruption Department of the Prosecutor's office and to support the Parliament. On the protection of human rights, the EC launched the EIDHR country based scheme in Azerbaijan early 2009.

Initial Analysis

This is clearly a key area for intervention, and at the heart of the EU-Azerbaijani ENP Action Plan. Follow up activities can be envisaged in the area of judiciary. Initial consultations have concluded that, the judicial reform remains an area with real needs.

The EC should take steps to ensure that CSOs have as much access as possible to the EIDHR and the horizontal programme for Non-State Actors and Local Authorities.

Conclusion

Some experience with the use of the sector budget support in this area will be available after the implementation of the AAP 2008 on the support to the justice reform will start. A widening of twinning could also be a realistic possibility in this area.

- **Support for economic and social development³**
 - Support to the diversification of economy (including promoting entrepreneurship)
 - Support to agriculture and regional development⁴
 - Support to environment and environmental governance
 - Human resources development, including education
 - Poverty reduction

EC Assistance

AAP 2009 will provide support to Agricultural and Rural Development Policy support (14 M€). In 2006, the EC initiated a € 3.4 million regional economic development project. The EC has also been involved in the Food Security Programme (1996-2006). In 2008, the EC launched "Vocational Education and Training reform Strategy and Pilot Implementation in a selected region in Azerbaijan» project of € 3 million. Azerbaijan also benefits from Tempus and Erasmus Mundus programmes.

³ Support for economic and social development is a priority in the EaP. In the current NIP, this priority is called "socio-economic reform".

⁴ EaP focus under bilateral track.

The EC has launched a twinning project on the Food Quality and Safety Assurance and Certification Requirements of Azerbaijani Fishery Products.

Initial Analysis

This area is a central one in the implementation of the Action Plan, and will be one of the priorities of the EaP in its bilateral format. Environment and climate change have also been identified as horizontal EC priorities, and the participation of Azerbaijan in the Kyoto mechanism could be one area of attention.

It may be useful to build on the large programmes in agricultural and rural development, and the previous Food Security programme. The focus in this area should be on planning for regional development and on capacity building for local authorities, rather than on direct infrastructure investment.

Conclusion

This could be a key area of EC intervention. The sectoral budget support requires complementary smaller, targeted activities such as Twinning.

- **Support for trade and regulatory reform**⁵
 - Promoting trade and exports, including approximation of trade related legislation, support to the functioning of customs
 - Further convergence of economic legislation (including standardisation, accreditation, conformity assessment and market surveillance)
 - Sector-specific regulatory aspects, including in the transport, and energy sectors
 - Sanitary and phytosanitary issues (incl. food safety, animal health, phytosanitary and veterinary services)

EC Assistance

The EC is providing technical assistance to the Ministry of Economic Development (3 MEUR) with a specific component on Trade and the WTO accession; as well as assistance to support the Export Investment climate (3 MEUR). EC launched a twinning on the Legal Approximation and Structural Reform in the Energy Sector of Azerbaijan, (1 MEUR), and a twinning on the Strengthening of Standardisation, Metrology, Conformity Assessment and Accreditation in SASMP - Standards Agency Azerbaijan (1.4MEUR).

⁵ In the current NIP, the third priority is called “support for legislative and economic reforms in the transport, energy and environment sectors”.

Initial Analysis

This is an important area of engagement in Azerbaijan, which is gaining even more importance in case of Azerbaijan's accession to WTO and the prospect for deeper trade relations under the Eastern Partnership. Sanitary and phytosanitary issues may be a potential area for smaller, targeted assistance through Twinning etc.

Conclusion

Investigation of further focus of potential sectors within this important area is needed. Instruments like Twinning would appear to best placed for this type of intervention.

- **Justice, Freedom, Security**
 - Support to integrated border management
 - Money laundering financial and economic crime
 - Fight against organized crime (including trafficking in human beings)
 - Asylum issues

EC Assistance

Azerbaijan participates in the Integrate Border Management Programme for South Caucasus under the ENPI Regional Programme.

Initial Analysis

This might be an important sector, which may become more relevant once the Eastern Partnership proposal, including mobility and security issues, will be adopted.

Conclusion

This is a potential sector for inclusion in the NIP if there is a realistic possibility for progress on mobility issues under the EaP. It belongs to the priorities under EaP in the bilateral track.

Additional area of intervention – pending on the political circumstances

- **Conflict Settlement and settlement consolidation**
 - Support to the settlement and settlement consolidation of the Nagorno Karabakh conflict

EC Assistance

It has been very difficult to implement projects for confidence building measures to support establishing contacts with the civil society in Armenia, Azerbaijan and Nagorno Karabakh.

Initial Analysis

Depending on the political circumstances, this area may require attention in the next programming period. The EC has the Instrument for Stability at its disposal for short-term actions for conflict resolution, and for rapid actions should a settlement be reached and ENPI Regional programmes can be used to finance a number of activities including people-to-people contacts. However, the NIP should include a provision conflict settlement and potential post-settlement activities, which can be activated depending on the political circumstances.

Conclusion

Settlement of the NK conflict should be a priority in the new NIP, depending of the political circumstances.

ANNEX – Outline of the current ENPI Azerbaijan NIP 2007-2010**ENPI National Programme**

The ENPI National Indicative Programme for the period 2007-2010 outlines three priority areas and an allocation of € 92 million in financial assistance:

<u>Priority Area 1:</u> Support for Democratic Development and Good Governance	€30m
<u>Priority Area 2:</u> Support for socio-economic reform (with emphasis on regulatory approximation with the EU acquis), fight against poverty and administrative capacity building	€32m
<u>Priority Area 3:</u> Support for legislative and economic reforms in the transport, energy and environment sectors	€30m
Total	€92m^f

Priority Area 1: Support for Democratic Development and Good Governance

Sub-priority 1: Public administration reform and public finance management

Sub-priority 2: Rule of law and judicial reform

Sub-priority 3: Human rights, civil society development and local government

Sub-priority 4: Education, science and people-to-people contacts/exchanges

Priority Area 2: Support for socio-economic reform (with emphasis on regulatory approximation with the EU acquis), fight against poverty and administrative capacity building

Sub-priority 1: Promoting mutual trade, improving the investment climate and strengthening social reform

Sub-priority 2: Supporting the implementation of the SPPRED/SPPRS⁷, of the State Programme for the Regional Development and of government plans for the non-oil sector (strengthened competitiveness and diversification of the economy).

Sub-priority 3: Sector-specific regulatory aspects, including public accounting

⁶ From 2009 annual ENP budget, Azerbaijani allocation was reduced by 4 MEUR (from 24 MEUR to 20 MEUR). Thus, **the total actual NIP allocation for Azerbaijan for 2007-2010 is 88 MEUR.**

⁷ Stands for poverty reduction.

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Priority Area 3: Support for legislative and economic reforms in the transport, energy and environment sectors.

Sub-priority 1: Energy, including reforms of the domestic legislative framework and markets

Sub-priority 2: Transport, including reforms of the domestic legislative framework and markets

Sub-priority 3: Environment