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European Neighbourhood and Partnership Instrument

Azerbaijan

NATIONAL INDICATIVE PROGRAMME 2011-2013

Abbreviations

CIB	Comprehensive Institution Building
CPT	Committee for the Prevention of Torture
CSP	Country Strategy Paper
CSOs	Civil Society Organisations
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENP AP	ENP Action Plan
ENPI	European Neighbourhood and Partnership Instrument
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NIP	National Indicative Programme
PCA	Partnership and Cooperation Agreement
REC	Caucasus Regional Environmental Centre
SPS	sanitary and phyto-sanitary
TA	Technical Assistance
TACIS	Technical Assistance to the CIS
USAID	US Agency for International Development
VET	Vocational Education and Training
WB	World Bank
WTO	World Trade Organisation

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PART ONE: EXECUTIVE SUMMARY

The Country Strategy Paper 2007-2013 (CSP) for Azerbaijan sets out the overall objectives of the EU assistance and encompasses all instruments and programmes. A National Indicative Programme for the ENPI for the years 2007-2010 was adopted on this basis and is being implemented. As foreseen by the ENPI Regulation, a review process of the CSP was undertaken in mid term. The Mid-term Review confirmed the validity of the strategic priorities of the EU assistance to Azerbaijan until 2013. On the basis of this conclusion, this new National Indicative Programme (NIP) covering the period 2011-2013 was drafted by the Commission. It sets out the priority areas of the EC bilateral assistance to Azerbaijan.

The indicative amount for the 2011-13 NIP is €122.5 million.

Mid-Term Review

The principal objective of the CSP remains to support the development of an increasingly close relationship between Azerbaijan and the EU in the context of the ENP, based on the objectives defined in the Partnership and Cooperation Agreement (PCA) and the EU-Azerbaijan European Neighbourhood Policy Action Plan (ENP AP).

The Mid-term Review undertaken by the Commission Services late 2008 concluded that the political, economic and social developments in Azerbaijan since 2007 and the development of new EU policies have changed the dimensions but not the substance of the main priorities identified in the CSP. As foreseen in the CSP, the relations between Azerbaijan and the EU have intensified. No significant changes have taken place on the legal framework for EU-Azerbaijani bilateral relations with the Partnership and Cooperation Agreement of 1999 remaining in force until a successor document will be agreed. However, the EU-Azerbaijani relations between are expected to be further enhanced within the framework of the Eastern Partnership, which includes the prospect of upgrading the contractual relations in the form of an Association Agreement, including i.a. a Deep and Comprehensive Free Trade Area (DCFTA) once the conditions are met.

Developments in Azerbaijan

Overall, Azerbaijan's commitment to the implementation of the ENP Action Plan remains slow and uneven. Azerbaijan has made slow progress in the areas of political dialogue and reform, including the protection of human rights and fundamental freedoms as well as the fight against corruption, in trade related areas and in regulatory and market reform. The situation regarding freedom of expression and media, politically motivated persecution of journalists and opposition activists remains of serious concern. Azerbaijan needs to make further efforts in the enforcement of anti-corruption legislation.

Azerbaijan has made good progress in the area of economic development and in strengthening its role as an energy producer and transit country. The country has had impressive economic growth since 2007, achieved significant reduction of poverty levels and undertaken major public investment projects. However, Azerbaijan has achieved only limited progress regarding the implementation of trade-related provisions of the ENP

Action Plan. Progress in WTO accession process has been slow and the use of GSP remains low.

Developments in EU-Azerbaijani relations

In May 2009, the Eastern Partnership (EaP) was launched, offering an opportunity to deepen relations between the EU and six neighbouring Eastern countries, including Azerbaijan. The prospect of deepening of EU-Azerbaijani relations implies an ambitious agenda of deeper bilateral engagement including the upgrading of contractual relations. The Commission adopted the draft negotiating directive for negotiations of an Association Agreement on 30 October. Both the political and trade aspects of these negotiations would require continuous progress on reforms and fulfilment of certain conditions; hence, the EU should provide support in these areas under the NIP 2011-2013.

Indicative Programme 2011-2013

This Indicative Programme supports the implementation of the key objectives under the PCA and ENP Action Plan and the priorities of the Eastern Partnership, notably under its bilateral track, such as deeper political cooperation and trade and economic relations between Azerbaijan and the EU, social and economic development between the regions in Azerbaijan, and increased mobility and security to facilitate the movement of goods and persons, strengthening of energy security.

Priority area 1 – Democratic structures and good governance

Strengthening of democratic structures, the rule of law and respect for human rights and fundamental freedoms are at the core of the EU-Azerbaijani relations. They directly link to the Action Plan priority areas 2, 3 and 4, and chapter 4.1.

Since the start of the implementation of the ENP AP, progress in this field has been slow. The internal political developments show the need for continuing democratic reform efforts, with a long-term aim of democratic consolidation. Continued efforts to secure freedom of expression and freedom of media as well as improve the electoral process are needed to bring Azerbaijan closer to European norms and values.

The EC support will build on the intervention in the justice sector planned under the NIP 2007-2010. Prioritising support is still justified in this area given its political importance for the perspective of the EU-Azerbaijan relations and the considerable needs.

Priority area 2 - Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform

This priority area directly relates to the Priority Areas 4, 5, 6 and 7 and chapters 4.4, 4.5 4.6 and 4.7 of the EU- Azerbaijan Action Plan.

Regional development is one of the priorities of the Eastern Partnership under its bilateral track, which offers regional development programmes including addressing the needs for human capital and SME development.

This priority includes support to Azerbaijan's efforts to accomplish its WTO accession process, which is the first and foremost precondition for starting negotiations of a

DCFTA with the EU. Emphasis should be placed on strengthening the institutional and administrative capacity to ensure regulatory convergence with the international and EU trade-related laws and standards and effective implementation and enforcement of the approximated laws and standards.

Priority area 3 – PCA and ENP AP implementation; including in the area of energy security, mobility and security

These are PCA and Action Plan priorities, which directly link to the priority areas 8 and 9, and to chapters 4.3 and 4.6 in relation to strengthening of EU-Azerbaijani energy bilateral cooperation and enhancement of cooperation in the field of Justice, Freedom and Security.

Strengthening the energy security of the EU and of the partners with regard to long-term energy supply and transit is one of the priorities of the Eastern Partnership. The actions related to energy security directly relate to the EU-Azerbaijani Memorandum of Understanding on the Strategic Cooperation in Energy, signed in 2006. EC assistance should also be provided to support activities aimed at increased mobility and security as foreseen under the Eastern Partnership, in order to facilitate the movement of goods and persons.

Indicative budget

The indicative budget within this National Programme will amount to €22.5 million over three years. This includes a minimum of €19 million for the Eastern Partnership Comprehensive Institution Building-programme, which will be dedicated to preparing the foundation for Association Agreements (AA) including i.a. the establishment or goal of establishing DCFTAs. It also includes a minimum of € million reserved for Regional development programmes under the Eastern Partnership.

The programme focuses on three priority areas with the following allocation:

<u>Priority Area 1:</u> Democratic Structures and Good Governance	25-30%	€30.5-37 Mio
<u>Priority Area 2:</u> Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform	35-40%	€43-49.0 Mio
<u>Priority Area 3:</u> PCA and ENP AP implementation, including in the area of energy security, mobility and security	30-35%	€37-43 Mio
Total	100%	122.5

PART TWO: INTRODUCTION: MID-TERM REVIEW

1. Introduction

This Indicative Programme for Azerbaijan covering the period 2011-2013 is part of the Mid-term Review (MTR) of the Country Strategy Paper (CSP) for Azerbaijan 2007-2013, which was undertaken by the Commission in the early part of 2009. On the basis of an analysis of the main political, economic and social developments in Azerbaijan since 2007, the results of implementing the ENP Action Plan, the development of new EU policies, and the results and impact of past EU assistance to Azerbaijan, the MTR concluded that the CSP for Azerbaijan remains valid until the end of the period (see checklist in Annex).

No changes to the legal framework for Azerbaijani-EU relations and in the foreign policy orientation of the Azerbaijani government have occurred that would require a revision of the CSP. Overall, Azerbaijan's commitment to implementing the ENP Action Plan remains uneven. Azerbaijan has expressed interest in the Eastern Partnership (EaP), launched in Prague in May 2009, which offers the opportunity for deeper relations between the EU and six neighbouring eastern countries.

The principal objective of the EU assistance as stipulated in the CSP for Azerbaijan remains to support the development of an increasingly close relationship between Azerbaijan and the EU, going beyond past levels of cooperation to deeper political cooperation and gradual trade and economic integration, principally in the framework of the Partnership and Cooperation Agreement (PCA) and the more recent European Neighbourhood policy.

Since 2007, Azerbaijan's own reform agenda has focused on economic reform with a strong emphasis on diversifying the economy and improving the business climate. In terms of implementation of the ENP Action Plan, Azerbaijan has made slow progress in the areas of political dialogue and reform, including protection of human rights and fundamental freedoms as well as in the fight against corruption, in trade-related areas and regulatory and market reform. In some areas, notably democratisation, protection of human rights, freedom of the media and of expression, negative developments have occurred. Freedom of expression and media remains a source of serious concern, including politically motivated persecution of journalists and opposition activists. There are persisting concerns regarding the freedom of association and assembly, and the overall deterioration of the human rights situation. Azerbaijan needs to make further efforts to fight corruption, which remains a serious problem. Whether enforcement of the anti-corruption legislation as well as a change of culture and mentality will take place remains to be seen.

The Presidential elections on 15 October 2008 marked technical progress toward meeting OSCE and Council of Europe commitments but did not meet all the commitments. The election process was carried out in a peaceful manner, but was characterised by a lack of competition and political discussions in the media, and thus did not reflect all the principles of a democratic and pluralistic election.

Azerbaijan has made good progress in the area of economic development and in strengthening its role as energy producer and transit country. Azerbaijan's economy was among the fastest growing in the world for the fourth consecutive year in 2008 with growth rates peaking at 34.5 % in 2006. Some improvements were achieved as regards the business environment and Azerbaijan was considered as "Top Reformer" in the 2009 World Bank "Doing Business" Report. However, the business environment overall remains difficult and further substantial improvements are necessary. Azerbaijan has achieved a significant reduction of poverty levels (to 13.2 % in 2008) and has undertaken major public investment projects. Azerbaijan has been able to cope with the global financial and economic crisis relatively well, thanks to its strategic reserves and an expansionary fiscal stance which has compensated for some of the decline in private sector activity. However, its high reliance on hydrocarbons remains the economy's major vulnerability, even more so in the global slowdown.

Also, Azerbaijan has so far achieved only limited progress regarding the implementation of trade-related provisions of the ENP Action Plan. Progress in WTO accession negotiations has been modest. As from January 2009 Azerbaijan benefits from the EU GSP+ arrangement, but the use of GSP/GSP+ remains low.

In terms of new relevant internal policies, a State Programme for Poverty Reduction and Sustainable Development for 2008-2015 was adopted in September 2008. A State Programme for Development of the Justice Sector for 2009-2013 entered into force in February 2009. In addition, the authorities place an increasingly stronger focus on migration issues and environment policy.

Since the approval of the current CSP, relations between Azerbaijan and the EU have intensified and are expected to be further enhanced within the framework of the Eastern Partnership, including the prospect of upgrading the contractual relations in the form of an Association Agreement. A possible future Association Agreement could significantly enhance the EU-Azerbaijan relationship across all areas of cooperation, including the establishment or the goal of establishing of a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Azerbaijan once the necessary conditions for it have been met.

Until a new negotiated agreement within the Eastern Partnership framework enters into force, the PCA in force since 1 July 1999 will remain the legal basis for cooperation between Azerbaijan and the EU. The EU-Azerbaijani Action Plan, adopted on 14 November 2006, setting out the mutually agreed political priorities of cooperation, remains valid until 2011 or until a successor document is drafted.

The changes in the horizontal external EU/Communities policies are mostly covered by the current CSP. Climate change is covered under the priority area 'energy, transport, environment, information society and media'. The CSP also covers migration, including issues related to asylum and border management, as well as justice, freedom and security, and the fight against organised crime. Also, a priority on trade-related issues, market and

regulatory reform was included in the CSP. An update of the CSP to take into account the new policy framework of the Eastern Partnership is incorporated into this Indicative Programme, with a strong emphasis on Regional Policy, Comprehensive Institution Building, mobility and security issues, trade-related issues, and energy security.

This Indicative Programme supports the implementation of the key objectives under the PCA and ENP Action Plan and the priorities of the Eastern Partnership, notably under its bilateral strand, in particular deeper political cooperation and trade and economic relations between Azerbaijan and the EU, social and economic development between the regions in Azerbaijan, and increased mobility and security to facilitate the movement of goods and persons, and strengthening of energy security. If the ENP Action Plan is replaced by another document during the implementation period of this NIP, the successor document should be used to guide assistance.

This programme builds on the National Indicative Programme 2007-2010 for Azerbaijan with an indicative allocation of €2 million, which focuses on three priority areas: Strengthening of Democratic Development and Good Governance; Support for socio-economic reform, fight against poverty and administrative capacity building; Support for legislative and economic reforms in the transport, energy and environment sectors.

As regards technical and financial cooperation, the ongoing programmes under TACIS and ENPI continue to support progress in the main areas of the PCA and ENP Action Plan. TACIS experience with sector budgetary support under the Food Security programme was overall positive. Azerbaijan has demonstrated slow implementation of the ENPI and experienced delays in establishing the necessary structures for management of sector budget support. An internal mechanism for sector budget support was put in place only in October 2009. Therefore, no programmes under the NIP 2007-2010 have been completed to date. The implementation of the Annual Action Programme 2007 on support to the reform of the energy sector started in 2009. Three twinning projects have been launched under ENPI. Overall, it is too early to draw far-reaching conclusions on the sector budget support mechanism as its implementation in Azerbaijan has been slow.

The EU's comparative advantages are in areas such as sector reform, public administration reform, approximation with EU norms and standards, and institution-building. These rely on extensive expertise of the European Commission and the EU Member States acquired, for example, in the course of the support given to the transition countries within TACIS programme and the support given in the course of the previous enlargement process. These areas should remain the main focus also in the upcoming programming period.

The activities and initiatives described in this NIP 2011-13 will be complemented and reinforced by activities under the Regional and the Inter-Regional Programmes 2011-13. The Regional programme will address multilateral cooperation among eastern neighbours primarily linked to the implementation of the Eastern Partnership. The ENPI Inter-Regional programme focuses on activities that are best implemented at inter-regional level for reasons of visibility, coherence or administrative efficiency and in order to

gradually strengthen dialogue and cooperation between the EU and all ENPI countries as well as between eastern and southern neighbours themselves. Examples of activities include TAIEX, SIGMA, Tempus and Erasmus Mundus.

Azerbaijan is covered by the Black Sea Synergy, a regional cooperation initiative covering the five eastern ENP countries as well as the Russian Federation and Turkey. The Black Sea Synergy is an EU sea-basin inclusive initiative aiming to solve problems that require region-wide efforts. The implementation of the Black Sea Synergy involves, *inter alia*, the establishment of partnerships, like the one concerning environment to be launched soon. Other sectors and cooperative schemes are currently also being explored.

Azerbaijan is also eligible for the Black Sea Cross-Border Cooperation programme, as a result of which it may receive additional funding during the period 2011-13. Resources for enhanced sector cooperation between relevant EU agencies and interested public bodies and authorities in Azerbaijan will be provided as appropriate under the ENPI Inter-Regional Programme 2011-13. Azerbaijan may receive support to co-finance participation in Community programmes, insofar as these are open to the country¹.

Azerbaijan also continues to benefit from thematic programmes such as the European Instrument for Democracy and Human Rights, and the Non-State Actors and Local Authorities in Development Programme.

PART THREE: The Indicative Programme for 2011-2013

2. Main priorities and goals

Assistance provided under this National Indicative Programme for Azerbaijan will focus on three priority areas. However, depending on developments regarding the peaceful settlement of the Nagorno-Karabakh conflict, the EU will be ready to provide specific assistance related to all aspects of conflict settlement and settlement consolidation and strengthening of relevant civil society actors. The following three priority areas are suggested for the NIP 2011-2013:

Priority Area 1: Democratic structures and good governance

- | | |
|------------------|--|
| Sub-priority 1.1 | Democratic institutions, rule of law and reform of judiciary |
| Sub-priority 1.2 | Public administration reform, including local government, public finance management and internal audit, fight against corruption |
| Sub-priority 1.3 | Human rights and fundamental freedoms, civil society development |

¹ This support must not exceed 10% of the programme budget, should be digressive, phased out over time and, as a general rule, cannot cover more than 50% of the costs of participation.

Priority Area 2: Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform

- Sub-priority 2.1 Promoting trade and investment, in particular through market and regulatory reform, support to Azerbaijan's preparations for accession to the WTO and a possible future DCFTA with the EU
- Sub-priority 2.2 Diversification of economy; regional and rural development
- Sub-priority 2.3 Environment and environmental governance
- Sub-priority 2.4 Human capital development, including education and training, public health

Priority Area 3: PCA and ENP AP implementation, including in the area of energy security, mobility and security

- Sub-priority 3.1 Strengthening of energy **security**
- Sub-priority 3.2 Mobility and **security**, customs and integrated border management

The extensive cooperation between the partner country and the EU, based on the Eastern Partnership policy framework and existing and possible future contractual relations, means that the ENPI NIP must cover a relatively broad range of areas. The main NIP priority areas included should be covered during the 2011-13 programming period. However, the indicative nature of the programme provides a certain flexibility regarding the implementation of sub-priorities. The identification process for Annual Action Programmes provides an opportunity to assess the suitability and timeliness of addressing sub-priorities and to adapt the proposed measures to the evolution of EU policies and sector developments. In this respect, in order to ensure the necessary flexibility, expected results and related indicators are indicative and should be adjusted according to the specific design of the Annual Action Programme. In this process care should be taken to ensure implementation of sub-priorities, which are of key importance for deepening the relationship with the EU in the context of the Eastern Partnership and supporting reforms. The identification should take into account information from the ENP Progress Reports on the Implementation of the ENP Action Plans and the work of sub-committees established under the PCA.

3. INDICATIVE BUDGET

Under this Indicative Programme 2011-2013, Azerbaijan will benefit from €22.5 million from the European Neighbourhood and Partnership Instrument (ENPI). This includes a minimum of €9 million earmarked for the Comprehensive Institution-Building Programme (CIB), and a minimum of €9 million reserved for Cohesion Policy within the framework of the Eastern Partnership. In case the CIB cannot be agreed or its implementation is delayed, the earmarked funds will be fully or partially reallocated to other programmes.

The National Indicative Programme for Azerbaijan envisages the following indicative allocations for each priority in the period from 2011 to 2013:

<u>Priority Area 1:</u> Democratic Structures and Good Governance	25-30%	€30.5-37 Mio
<u>Priority Area 2:</u> Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform	35-40%	€43-49.0 Mio
<u>Priority Area 3:</u> PCA and ENP AP implementation, including in the area of energy security, mobility and security	30-35%	€7-43 Mio
Total	100%	122.5

4. PRIORITY AREAS

4.1. Priority area 1: Strengthening of Democratic Structures and Good Governance

Strategic context/justification

Strengthening of democratic structures, the rule of law and respect for human rights and fundamental freedoms are at the core of EU-Azerbaijani relations. They link directly to the Action Plan priority areas 2, 3 and 4, and chapter 4.1. Internal political developments in the country and the declining situation in human rights and fundamental freedoms show the need to anchor European values in the political system and governance of Azerbaijan.

Sufficient progress towards the principles and values of democracy, the rule of law, and respect for human rights is an important precondition for upgrading the contractual relations between the EU and Azerbaijan within the framework of the Eastern Partnership. The European Commission should therefore continue to provide support in this area. Improved rule of law and good governance, effective measures to fight corruption and strengthened State institutions are important for socio-economic development, including improving the investment climate in Azerbaijan. Progress in the area of democratisation and fundamental freedoms may also contribute positively to the creation of more favourable conditions for resolution of the Nagorno Karabakh conflict and to the consolidation of peace.

Continued public administration reform and effective public finance management are crucial elements to strengthen administrative capacity, increase transparency and public accountability of the government structures and government spending at all levels, and contribute to the fight against corruption. This area is also part of the conditionality for

budget support. The EU has supported the PEFA assessment by the World Bank, and will continue to address this area.

Efforts are needed to further promote citizens' rights and participation in public decision-making to promote participatory democracy and more public control of State institutions at all levels. The role of civil society organisations is key in this respect, as well as their action for the promotion of democracy and human rights. Continued efforts to secure freedom of expression and freedom of media as well as to improve the electoral process should be made to bring Azerbaijan closer to European values.

4.1.1. Sub-priority 1.1: Strengthening of democratic institutions, rule of law and reform of judiciary

a) Long-term impact

The expected long-term impact will be to contribute to a society characterised by rule of law, consolidated democracy, economic development.

b) Specific objectives

To contribute to the development of a more independent, transparent and efficient judicial system and stronger democratic institutions.

c) Expected results

- Enhanced independence and effectiveness of the judiciary and prosecutors;
- Effective enforcement of court rulings;
- Increased access to justice;
- Strengthened capacity of democratic institutions, including the Ombudsman institution and the Parliament.
- Improved quality of electoral processes and electoral administration in line with international standards (Council of Europe, OSCE/ODIHR).

d) Indicators of achievement²

- Increased public confidence in the judiciary and law-enforcement authorities;
- Improved working methods and information systems used by judges and their support staff, prosecutors and law enforcement authorities, including police;
- Improved access to justice through provision of free legal aid (in particular for women and vulnerable groups) and enhanced provision of legal aid;
- Enhanced capacity of the Ombudsman institution and the Parliament.

² All general indicators set out in this NIP will need to be further aligned (and specified) in the Annual Action Programmes.

- Improved electoral practice as demonstrated by international election monitoring reports where relevant.

4.1.2. Sub-priority 1.2: Public administration reform, including local government, public finance management, fight against corruption

a) Long-term impact

The expected long-term impact will be to contribute to developing a modern state in which the administration is close to citizens, oriented towards satisfying citizens' needs and capable of managing public finances in an accountable, transparent and effective manner.

b) Specific objectives

To strengthen local government structures and improve the quality of public services, as well as the administration's capacity to improve public finance management and reduce corruption.

c) Expected results

- Implementation of Public Administration Reform plans to strengthen local government structures in line with the European Charter of Local Self-Governing;
- Effective and efficient public finance management, including public internal control and independent external audit, money laundering, economic and financial crime;
- Approximation of public accounting standards and procedures with EU and international norms and practices;
- Effective implementation of the Anti-Corruption Strategy and strengthened capacity to fight corruption.

d) Indicators of achievement

- Increased efficiency and strengthened administrative capacity, in particular at the level of local government;
- More transparent and predictable public finance management developed;
- Continuing reporting of revenues from oil and gas extraction within the Extractive Industries Transparency Initiative;
- Increased approximation of public internal control and external audit with international standards;
- Enhanced capacity of the police and prosecutors to deal with corruption cases;
- Reduced perceived levels of corruption.

4.1.3. Sub-priority 1.3: Human rights and fundamental freedoms, civil society development

a) Long-term impact

The expected long-term impact is to contribute to increased protection of human rights and fundamental freedoms, active participation of civil society in public and social life, and creation of more favourable conditions for resolution of the conflict and consolidation of peace in Azerbaijan.

b) Specific objectives

Respect for human rights and fundamental freedoms in line with international and European standards, strengthened civil society, and increased freedom of the media.

c) Expected results

- Increased awareness of and respect for issues related to human rights (including women's rights) and fundamental freedoms within the administration, the judiciary, prosecutors and law-enforcement bodies and penitentiary structures;
- Enhanced capacity of independent civil society organisations;
- Improved transparency in decision-making structures and procedures, including through increased participation of civil society organisations;
- Improved and enforced legal and administrative framework to ensure respect of media freedom.

d) Indicators of achievement

- Greater perception that human rights and fundamental freedoms are being respected;
- Strengthened capacity of civil society organisations;
- Increased public participation of civil society organisations in public consultation processes;
- Increase in perceived levels of freedom of expression and media freedom.

4.2. Priority area 2: Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform

Strategic context/justification

This priority area relates directly to the Priority Areas 4, 5, 6 and 7 and chapters 4.4, 4.5, 4.6 and 4.7 of the EU-Azerbaijan Action Plan.

Socio-economic reform and sustainable development, including regional development and cohesion policy, constitute one of the challenges for the government of Azerbaijan. Regional development is also a priority of the Eastern Partnership under its bilateral strand, which offers regional development programmes addressing inter alia the needs in terms of human capital and SME development with a view to reducing economic and social disparities between the regions and the groups of populations and to increasing internal cohesion through supporting economic and social development³. This assistance can take the form of a regional development programme modelled on the EU Cohesion Policy to be agreed between the Commission and Azerbaijan by mid 2012. Such interventions should be based on the real needs of Azerbaijan and take into account its territorial organisation. In this context, the situation of women, who predominate among the ranks of the unemployed and "economically inactive", should be taken into account.

Support for trade and investment, regulatory approximation and reform needs special attention in the 2011-2013 programming period in view of the prospect of further enhancement of trade and economic relations between Azerbaijan and the EU within the Eastern Partnership. In particular, the Eastern Partnership envisages offering to Azerbaijan an Association Agreement, which would include i.a. the establishment or objective of establishing a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Azerbaijan once the necessary conditions for it have been created the first and foremost of these conditions being Azerbaijan's accession to the World Trade Organisation (WTO). Given its extensive experience and expertise, the EU is well placed to assist Azerbaijan further in its WTO accession negotiations and in bringing its trade and investment-related legislation and procedures into line with the EU's internal market and international laws and standards. Efforts to approximate legislation and procedures with the EU and internationally will improve Azerbaijan's trade and investment opportunities, support progress in Azerbaijan's WTO accession process increase Azerbaijan's level of preparedness for a possible future DCFTA with the EU following the country's WTO accession, and support the government's efforts to improve the business and investment climate. This will have an overall positive impact on Azerbaijan's economic and trade development, reduce its dependence on oil and create employment opportunities.

The development of human capital, including upgrading the education and training and research systems with a view to convergence with EU standards and practices, will increase the competitiveness of Azerbaijan and provide better prospects for socio-economic development. It will also contribute to the strengthening of democratic development and social stability in the country, and may positively contribute to the resolution of conflicts.

4.2.1. Sub-priority 2.1 Promoting trade and investment, in particular through market and regulatory reform, support to Azerbaijan's preparations for accession to the WTO and a possible future DCFTA with the EU

³ Efforts focusing on SMEs should be coordinated with the Eastern Partnership Flagship initiative to create an SME Facility, and the work of the Neighbourhood Investment Facility in this area.

a) Long-term impact

The expected long-term impact is Azerbaijan's enhanced economic development and increased prosperity across the society.

b) Specific objectives

To enhance trade and investment relations between the EU and Azerbaijan, including by gradual removal of existing barriers, and to support Azerbaijan's preparations for WTO accession negotiations and the implementation of market and regulatory reform, i.a. with a view of increasing Azerbaijan's level of preparedness for a possible future DCFTA with the EU.

c) Expected results

- Implementation of reforms aiming at promoting trade and investment, including reforms in the area of competition and those aiming at a gradual removal of the existing trade and investment barriers;
- Progress in approximating and implementing trade and investment legislation and procedures with EU and international laws and standards, in particular in the areas of technical regulations, standardisation and conformity assessment, sanitary and phyto-sanitary regulation and animal welfare, protection of intellectual property rights protection, customs and taxation, and transport;
- Enhanced institutional and administrative capacity in trade and investment related areas in order to ensure effective implementation and enforcement of the approximated legislation and procedures in line with the EU and international rules and practices.
- Progress in Azerbaijan's WTO accession negotiations and increased level of the country's preparedness for a possible future DCFTA with the EU.

d) Indicators of achievement

- Increased levels of and more diversified trade and FDI (as demonstrated by relevant statistics);
- Increased degree of approximation with the EU's internal market and international legislation and procedures and strengthened institutional and administrative capacities in trade and investment-related areas;
- Progress in WTO accession process and increased level of the country's preparedness for a possible future DCFTA with the EU).

4.2.2. Sub-priority 2.2. Diversification of economy; regional and rural development

a) Long-term impact

The expected long-term impact is to contribute to sustainable socio-economic development in Azerbaijan.

b) Specific objectives

To contribute to the diversification of economy in Azerbaijan and reduce economic and social disparities between the regions and population groups.

c) Expected results

- Enhanced development of the non-oil sector of the economy;
- Enhanced entrepreneurship and more employment opportunities via SME development, in particular in the regions;
- Greater efficiency in the agricultural sector.

d) Indicators of achievement

- Growth of non-oil economy as demonstrated by national statistics;
- Reduced disparities between the regions as demonstrated by national statistics;
- Increased number of registered SMEs in the regions as demonstrated by national statistics;
- Greater productivity in the agricultural sector as demonstrated by national statistics.

4.2.3. Sub-priority 2.3 Environment and environmental governance

a) Long-term impact

The expected long-term impact is to contribute to improvement of the environment in Azerbaijan.

b) Specific objectives

To have environmental, sustainable development and climate change considerations integrated into the country's sectoral policies and to strengthen environmental governance.

c) Expected results

- Better legislation in this area including approximation of environmental legislation with European norms and standards;
- Enhanced awareness of environmental considerations in cross-cutting legislation, taking into consideration EU best practices and experience;
- Strengthening of enforcement of legislation and environmental governance.
- Reduction of effects on climate change.

d) Indicators of achievement

- Increased alignment of environmental legislation with the EU norms;
- Increased integration of environmental considerations into cross-cutting legislation,
- Strengthened enforcement of environmental legislation, including via development of an efficient reporting system on the state of the environment;
- Mitigation and reduction of the effects of climate change through direct actions and incorporation of climate change considerations into sectoral policies.

4.2.4. Sub-priority 2.4. Human capital development, including education and training, research and public health

a) Long-term impact

The expected long-term impact will be to strengthen socio-economic development, economic competitiveness and social stability through development of human capital in Azerbaijan.

b) Specific objectives

To modernise and upgrade education and training systems in order to enhance socio-economic development, to facilitate integration into the European Higher Education Area and to increase involvement of Azerbaijan with the European Research Area.

c) Expected results

- Enhanced convergence and improved quality and capacity of education and training systems in line with European standards and practices, including greater participation in relevant exchange programmes;
- Implementation of reforms in the area of higher education in accordance with Bologna process principles;
- Strengthened links between scientific and research communities in the EU and Azerbaijan, including educational institutions and networks.
- Increased participation of Azerbaijani research entities in the EU Research Framework Programmes.
- Improved implementation of international agreements in the area of public health.

d) Indicators of achievement

- Improved vocational training responsive to the labour market needs and resulting in high employability rates of graduates.

- Improved higher education with implemented reforms according to the Bologna process, as measured by the Bologna scorecard.
- Increased participation in EU programmes in the field of education involving international cooperation and increased participation in exchange programmes, as measured by an increased number of applications and selected proposals in the Tempus and Erasmus Mundus programmes.
- Further involvement of Azerbaijan with the European Research Area, as measured by increased number of applications submitted and proposals selected in the EU Research Framework programmes.
- Improved implementation of international agreements in the area of public health.

4.3. Priority area 3: PCA and ENP AP implementation; including in the area of energy security, mobility and security

Strategic context/justification:

These are PCA and Action Plan priorities, which directly link to the priority areas 8 and 9, and to chapters 4.3 and 4.6 in relation to strengthening of EU-Azerbaijani energy bilateral cooperation and enhancement of cooperation in the field of Justice, Freedom and Security, including in the field of border management.

Strengthening the energy security of the EU and of its partners with regard to long-term energy supply and transit is one of the priorities of the Eastern Partnership under the bilateral strand. In this context, emphasis is placed on Azerbaijan's gradual convergence with the EU energy market, enhancing the safety and security of its energy infrastructure and supporting infrastructure development. The energy security measures relate directly to the Memorandum of Understanding on Strategic Cooperation in Energy, signed by the EU and Azerbaijan in 2006 and supported by EU-financed Sector Policy Support Programme and twinning programmes. Efforts to boost energy security should be coordinated with the activities of the Eastern Partnership on energy security.

The EU assistance can be used to facilitate the movement of goods and persons and contribute to the stability and security in the region. Improved border management will facilitate cross-border trade by reducing waiting times and enhancing security and safety at borders. Work in this area should be coordinated with the Eastern Partnership Flagship initiative on Integrated Border Management.

4.3.1. Sup-priority 3.1. Strengthening of Energy Security

a) Long-term impact

The expected long-term impact will be to enhance energy security of the EU and Azerbaijan and the role of Azerbaijan as both an energy producer and a transit country.

b) Specific objectives

To enhance energy security via the strengthening of safety and security of the Azerbaijani energy system, promote legislative reforms in the energy sector and support the implementation of the MoU on the Strategic Partnership in the field of Energy.

c) Expected results

- Increased levels of safety and security in the existing energy infrastructure;
- More cooperation in developing new energy infrastructures to enhance Azerbaijan's energy security and its role as a transit country;
- Increased market convergence, institutional and structural reforms in Azerbaijan's energy sector, benefiting from EU best practices;
- Increased energy efficiency;
- Greater use of renewable energy sources in Azerbaijan.

d) Indicators of achievement

- Enhanced safety and security of the existing energy infrastructure;
- Progress in developing new energy infrastructures;
- Enhanced market convergence in the energy sector;
- Higher savings in energy as demonstrated by national statistics.
- Higher share of renewable energy sources as demonstrated by national statistics.

4.3.2. Sub-priority 3.2 Mobility and Security, customs and integrated border management

a) Long-term impact

The expected long-term impact is to facilitate secure movement of goods and persons across borders.

b) Specific objectives

To improve border management through more effective border control procedures and management systems by alignment of practices and procedures to European Standards, and improvement of legislation and capacity to deal with migration and asylum.

c) Expected results

- Improved border management and strengthened capacity of border security systems;
- Improved border control based on risk analysis to facilitate the movement of people and goods across the borders;

- Improved legislation on migration and asylum issues;
- Enhanced capacity to deal with migration and asylum issues;
- Increased capacity to combat trafficking and organised crime at borders.
- Upgrading of asylum systems to international standards.

d) Indicators of achievement

- Faster and safer border crossing for persons and goods according to the national legislation;
- Increased alignment of legislation on migration and asylum issues;
- Implementation of an adequate legislative framework on migration;
- Strengthened capacity of the State Migration Services;
- Improved migration data management and prevention of illegal migration.

5. IMPLEMENTATION

The general principle underlying the programme is partnership to achieve joint policy objectives. In line with the Paris Declaration and Accra Agenda for Action on aid effectiveness, preference should be given to a programme-based approach and the country systems should be used as the first option for aid programmes. However, the NIP does not prejudge the type of instrument to be used to implement the programmes foreseen in the NIP. The decision as to which implementation instrument will be used, will be taken through the identification of the annual action programmes for each programme. These documents will be submitted to Member States including an eligibility assessment where required, well in advance to allow for a thorough assessment.

The priorities of this Indicative Programme derive directly from the ENP Action Plan and the Eastern Partnership priorities, and therewith provide a strong link between joint policy objectives and assistance cooperation. As too many small, stand-alone measures would result in administrative overload and delay implementation in general, Annual Action Programmes should contain a limited number of components.

Where relevant, other stakeholders including Civil Society Organisations (CSOs) should be consulted on the design of the measures to be implemented under this programme and might be involved in the monitoring process. This will be facilitated by the recently opened Baku delegation with a fully-fledged operations section. As appropriate, CSOs should be supported in their role of promoting reform and increasing public accountability in the sectors supported by the NIP.

Since Sector Budget Support programmes have only recently started in Azerbaijan and it is difficult to draw far-reaching conclusions from their early phases, their implementation should be monitored closely during the NIP 2011-2013 period to ensure their effectiveness in achieving ENPI objectives. The implementation of the Sector Policy Support programme on support for energy sector reform was launched in 2009.

Preparations for a second sector budget support operation are being finalised for the justice sector, and future follow-up budget support is planned for agriculture and regional development. Overall, Azerbaijan has been slow to prepare the sector budget support programmes.

Sector budget support programmes seek to enhance policy dialogue and increase government ownership in the reform process. Their design should be coherent with the priorities of the EU-Azerbaijani ENP Action Plan and their implementation should be linked to the ongoing policy dialogue. The identification of the programmes should be based on a Sector Readiness Assessment. The existence of a well-defined sector strategy, a sound macro-economic framework, and a sound Public Finance Management system are necessary preconditions for sector budget support operations.

Azerbaijan has shown particular interest in making increased use of twinning and technical assistance. The first twinning programmes are being launched under the TACIS instrument in late 2009 and there is a considerable pipeline of requests, which needs to be addressed during the programming period. It is therefore recommended that sufficient resources are made available for the use of twinning and technical assistance from this programme.

This Indicative Programme is not aimed at covering large-scale investments or providing subsidies to leverage investments by international financing institutions in the energy sector, which can be primarily covered from the Neighbourhood Investment Facility. However, support for activities related to the upgrading or development of the energy infrastructure such as feasibility studies could be considered under this Programme.

Azerbaijan may receive support to co-finance participation in EU programmes, where these are open to the country⁴. Resources for enhanced sector cooperation between the EU agencies and interested public bodies and authorities in Azerbaijan will be provided as appropriate under the ENPI Inter-Regional Programme 2011-2013.

The priorities set out in the NIP will be underpinned and supported by the results of research and development. In this regard, Azerbaijan is encouraged to increase investment and capacity in research and development, in particular through an increased level of involvement of Azerbaijani research entities in the 7th Framework Programmes (FP7)⁵.

Climate change is a key challenge affecting the global community across a wide range of policy areas⁶. In the implementation of this Indicative Programme, considerations with regard to climate change causes (mitigation) and effects (adaptation) are addressed

⁴ This support must not exceed 10% of the programme budget, should be phased out degressively over time and, as a general rule, cannot cover more than 50% of the costs of participation.

⁵ See http://cordis.europa.eu/fp7/home_en.html for full information on FP7.

⁶ These include air, water, waste, nature protection, industrial pollution, agriculture, forestry, fisheries, energy, transport, infrastructure and urban planning, tourism, human, animal and plant health, education, research.

directly under sub-priority 2.3 (Environment and environmental governance) and will be integrated into other relevant areas of intervention. The different stages of the implementation process will make use of available climate risk screening methodology to improve climate resilience of the activities in the chosen area of cooperation. Gender as a cross-cutting issue will be mainstreamed in all assistance measures.

In 2005 the Commission identified eleven priority areas⁷ where the challenge of attaining Policy Coherence for Development, i.e. synergies with development policy objectives, is considered particularly relevant. As a policy-driven instrument the ENPI is particularly well-placed to accommodate this. As a result the programmes and activities described in this Programme will - where possible - be designed in such a way as to create these synergies with the national development and reform policy objectives of Azerbaijan.

⁷ Trade; Environment; Security; Agriculture; Fisheries; Social dimension of globalisation, promotion of employment and decent work; Migration; Research and innovation; Information society; Transport; Energy.

5.1. The Eastern Partnership Comprehensive Institution-Building Programmes

More intense bilateral cooperation under the Eastern Partnership provides the foundation for Association Agreements (AA), which would include i.a. the establishment or objective of establishing Deep and Comprehensive Free Trade Areas (DCFTAs) once the necessary conditions for it have been met. The Association Agreement will deepen political association and foster trade and economic integration by, inter alia, promoting further convergence towards EU legislation and standards.

The Comprehensive Institution-Building programme (CIB) is a medium-term planning and implementation framework developed jointly by the Commission and Azerbaijan. It is intended to assist Azerbaijan with institution-building in respect of a limited number of core institutions that are central to preparing the ground for and implementing future Association Agreements (AA), which would include i.a. the establishment or objective of establishing DCFTAs (agreement-driven). It will focus on a few selected core institutions (or clusters of institutions) which will have a central role in the implementation of the new Association Agreements. Through a comprehensive approach it will seek to enable the relevant institution to assume, by the end of the programme, the obligations stemming from these new agreements. It will be based on clear commitment from the partner country and be co-financed in cash and/or kind.

The CIB will be agreed by the Commission and the partner country government. A Framework Document will identify the CIB core institutions. Based on the Framework Document, Institutional Reform Plans will be designed for selected institutions during 2010 in partnership with government representatives and EU Member States interested in contributing to the CIB. Preparatory and initial CIB measures may start in 2010 with full CIB financing to implement the Institutional Reform Plan provided through Action Programmes drawn up on the basis of this National Indicative Programme 2011-2013. The CIBs will be implemented inter alia through the provision of advice and training to the selected public institutions as well as the provision and delivery of EU-norm determined equipment and of specialised infrastructure needed for their operation. Support will be provided using existing instruments such as Twinning and TAIEX as well as high-level advice and new innovative mechanisms. In order to ensure coherence, the CIB will build upon relevant aspects of ongoing cooperation activities.

A minimum of €9 million from the indicative allocation under priority areas 1 (Democratic Structures and Good Governance) and 2 (Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform) is earmarked for CIB. Other ENPI resources may be added as appropriate to strengthen the CIB and provide accompanying measures. In case a CIB cannot be agreed or its implementation is delayed, these funds will be fully or partially reallocated to other programmes.

6. RISKS AND ASSUMPTIONS

The key assumption underpinning this Programme is Azerbaijan's continued commitment to the reform agenda and policy objectives in the jointly agreed EU - Azerbaijan Action Plan and the underlying Partnership and Cooperation Agreement (PCA). Should this assumption no longer hold true, as a result of major policy changes on the Azerbaijani side, e.g. in the context of upcoming parliamentary elections during the programming period, the priorities under this Indicative Programme and the underlying Country Strategy Paper may have to be subject to an early review.

In terms of risks in the delivery of assistance, budget support programmes will rely on continued improvements in public finance management, macroeconomic stability and the availability of mature sectors with strong sector strategies. Should these conditions not be in place, the programmes would need to adapt and other forms of assistance, including capacity-building, would have to be used to a greater extent.

7. ALIGNMENT, HARMONISATION AND CONSULTATION

7.1. Dialogue with the Government and alignment with national policies

The policy objectives set out in the EU - Azerbaijan Action Plan were formally agreed by the two sides on 14 November 2006.

Consultations with the Azerbaijani authorities on this Indicative Programme started in January 2009 with consultations on the Initial Concept Note. A programming mission to Azerbaijan took place in April 2009, when the main priorities and sub-priorities of this Indicative Programme were discussed with relevant stakeholders, including the civil society representatives in Baku, and preliminarily agreed with the Azerbaijani authorities.

It was agreed that the future EU assistance strategy should be based on jointly agreed policy objectives of the EU – Azerbaijan Action Plan and support the priorities of the Eastern Partnership, thereby selecting a limited number of priority areas where EU financial assistance would have the most impact.

Through 2009, further discussions on the draft programming documents took place with the National Coordinating Unit of the Ministry of Economic Development, which is in charge of coordinating the EU assistance programmes in Azerbaijan.

The EU is committed to strengthening adherence to the principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The responsibility for donor coordination within the Azerbaijani authorities lies with the National Coordinating Unit of the Ministry of Economic Development. This Unit's regular donor coordination needs to be tightened up. Currently, donor coordination takes place in an ad hoc manner, mostly initiated by donors themselves.

The EC Delegation cooperates extensively with EU Member States on assistance issues. Regular donor coordination should be facilitated with the strengthening of the EC Delegation in Baku.

In the spirit of the EU Code of Conduct on Complementarity and Division of Labour, the EU attaches great importance to regular donor coordination with the Member States and other donors to coordinate assistance priorities and possibilities of joint work.

Consultations with the most relevant donors (IMF, WB, Council of Europe, OSCE, WHO, and the UK) on this National Programme took place in Baku during the programming mission in April 2009. In addition, a round-table discussion with local civil society organisations was held.

The concept note for the National Indicative Programme 2011-2013 was put on the website of the European Commission in May 2009 for public consultation. A number of written contributions were received.

Close donor coordination will be particularly important in particular in preparing and implementing new Sector Policy Support Programme for assistance.

8. ANNEXES

8.1. Annex 1: Country at a glance

Main data:

Land area:	86,600 sq km
Population:	8.6 Mio (2007)
Population growth	0.8% (2007)
Life expectancy at birth, total (years)	67 (2007)
Internet users (per 100 people)	11 (2007)

(Data by the World Bank)



Azerbaijan - Main Economic indicators	2005	2006	2007	2008 prel.	2009 proj.
Real sector					
Real GDP growth (domestic currency, % change)	26.2	34.5	25.0	10.8	2.5
GDP nominal (EUR, billion)	10.6	16.0	22.8	31.5	35.7
GDP nominal (USD, billion)	13.2	20.2	31.2	46.3	47.1
GDP per capita (EUR)	1267	1886	2648	3620	4055
GDP per capita (USD)	1571	2376	3628	5322	5352
GNI per capita, PPP current prices (USD)	3940	5380	6260	6936	7109
Inflation (period average)	9.6	8.3	16.7	20.8	6.2
Social indicators					
Unemployment rate (officially registered only)	1.1	1.0	0.9	0.8	1.0
Poverty rate (% population)	24.0	21.0	15.8	13.2	13.0
Inequality (Gini index consumption/income)	2.3				
Fiscal sector					
Total revenue (% GDP)	20.3	22.8	23.0	30.9	18.9
Total expenditure (% GDP)	22.7	27.4	29.2	38.1	29.8
Budget balance (% GDP)	-2.3	-4.6	-6.2	-7.2	-10.8
Gross public debt (% GDP)	16.2	17.5	15.0	11.7	11.0
Monetary sector					
Domestic credit to private sector (% GDP)	11.8	13.3	17.6	19.3	
Broad money (M3) (% change)	22.3	86.3	71.4	44.0	9.1
Degree of monetisation (M3/GDP, %)	14.7	19.1	22.0	22.3	21.2
Foreign currency deposits in total bank deposits (%)	80.7	61.2	47.0	55.5	57.0
External sector					
Current account balance (% GDP)	1.3	18.4	28.9	35.5	10.8
Trade balance (% GDP)	25.0	38.3	48.8	49.7	22.2
Foreign direct investment (net, % GDP)	3.5	-6.2	-16.6	-4.1	-1.5
Import cover of reserves (months)	3.0	4.8	5.6	7.2	
External vulnerability					
Total external debt (% GDP)	34.7	28.2	22.3	19.2	17.5
Public external debt (% GDP)	12.5	9.4	8.1	7.5	7.2
Debt service ratio ¹	55.2	42.3	31.0	26.6	
Gross reserves (excl. gold, USD billion)	1.2	2.5	4.3	6.5	3.5
Reserves/M3	0.6	0.6	0.6	10.1	0.3
Financial sector					
Exchange rate (local currency per EUR, average) ²	19.8	10.2	19.2	1.20	
Short-term interest rate					
Exchange rate (local currency per USD, average) ²	0.95	0.89	0.86	0.82	
Real effective exchange rate (2000=100)	85.8	89.0	95.1	121.8	
Real effective exchange rate (% change)	15.6	3.7	6.9	28.1	

¹ External debt-to-exports ratio in % ² Recalculated for the new manat=5000 old manat

Sources: Azerbaijani authorities, IMF, WB.

8.2. Annex 2: MDG data

Millennium Development Goals			
	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger			
Employment to population ratio, 15+, total (%)	55	57	61
Employment to population ratio, ages 15-24, total (%)	36	37	39
GDP per person employed (annual % growth)	-12	8	14
Income share held by lowest 20%	6,9	7,4	13,3
Malnutrition prevalence, weight for age (% of children under 5)	..	14,0	..
Poverty gap at \$1.25 a day (PPP) (%)	4	1	1
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	16	6	2
Prevalence of undernourishment (% of population)	27	..	12
Vulnerable employment, total (% of total employment)	..	..	53
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages 15-24)	..	100	100
Literacy rate, youth male (% of males ages 15-24)	..	100	100
Persistence to last grade of primary, total (% of cohort)	..	97	99
Primary completion rate, total (% of relevant age group)	..	..	..
Total enrolment, primary (% net)	..	..	..
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national parliaments (%)	12	12	11
Ratio of female to male enrolments in tertiary education	..	..	..
Ratio of female to male primary enrolment	112	101	98
Ratio of female to male secondary enrolment	..	101	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	43,3	43,6	50,2
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-23 months)	97	99	97
Mortality rate, infant (per 1,000 live births)	75	58	34
Mortality rate, under-5 (per 1,000)	93	69	39
Goal 5: Improve maternal health			
Adolescent fertility rate (births per 1,000 women ages 15-19)	41	34	29
Births attended by skilled health staff (% of total)	..	84	89
Contraceptive prevalence (% of women ages 15-49)	..	55	51
Maternal mortality ratio (modelled estimate, per 100,000 live births)	..	..	82
Pregnant women receiving prenatal care (%)	98	66	77
Unmet need for contraception (% of married women ages 15-49)	..	..	23
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	1	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	1
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	25
Incidence of tuberculosis (per 100,000 people)	50	75	77
Prevalence of HIV, female (% ages 15-24)	..	..	0,1
Prevalence of HIV, male (% ages 15-24)	..	..	0
Prevalence of HIV, total (% of population ages 15-49)	..	..	0,2
Tuberculosis cases detected under DOTS (%)	5	6	46
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP \$ of GDP)	2,8	1,6	1,0

CO2 emissions (metric tons per capita)	4,2	3,6	4,4
Forest area (% of land area)	11	11	11
Improved sanitation facilities (% of population with access)	80	80	80
Improved water source (% of population with access)	70	76	78
Marine protected areas, (% of surface area)	..	..	..
Nationally protected areas (% of total land area)	..	..	4,8
Goal 8: Develop a global partnership for development			
Aid per capita (current US\$)	15	17	26
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	1	5	1
Internet users (per 100 people)	0,0	0,1	10,8
Mobile cellular subscriptions (per 100 people)	0	5	53
Telephone lines (per 100 people)	8	10	15
Other			
Fertility rate, total (births per woman)	2,3	2,0	2,0
GNI per capita, Atlas method (current US\$)	400	610	2.640
GNI, Atlas method (current US\$) (billions)	3,0	4,9	22,6
Gross capital formation (% of GDP)	23,8	20,7	21,3
Life expectancy at birth, total (years)	66	67	67
Literacy rate, adult total (% of people ages 15 and above)	..	99	100
Population, total (millions)	7,7	8,0	8,6
Trade (% of GDP)	69,4	77,4	102,2
Source: World Development Indicators database			

8.3. Annex 3: Summary table of focal/non-focal areas of the Programme

Assistance provided under this National Indicative Programme for Azerbaijan will focus on three main priority areas and nine sub-priorities:

- Priority Area 1: Democratic structures and good governance**
- Sub-priority 1.1: Democratic institutions, rule of law and reform of judiciary
 - Sub-priority 1.2: Public administration reform, including local government, public finance management and internal audit, fight against corruption
 - Sub-priority 1.3: Human rights and fundamental freedoms, civil society development
- Priority Area 2: Socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform**
- Sub-priority 2.1: Promoting trade and investment, in particular through market and regulatory reform including customs, support to Azerbaijan's preparations for accession to the WTO and a possible future DCFTA with the EU
 - Sub-priority 2.2: Diversification of economy; regional and rural development
 - Sub-priority 2.3: Environment and environmental governance
 - Sub-priority 2.4: Human capital development, including education and training, public health
- Priority Area 3: PCA and ENP AP implementation, including in the area of energy security, mobility and security**
- Sub-priority 3.1: Strengthening of energy security
 - Sub-priority 3.2: Mobility and Security, customs and integrated border management

Indicative budget

Azerbaijan will, under this NIP 2011-2013, benefit from €122.5 million from the European Neighbourhood and Partnership Instrument (ENPI). The indicative allocation is as follows:

<u>Priority Area 1:</u> Democratic Structures and Good Governance	25-30%	€30.5-37 Mio
<u>Priority Area 2:</u> Socio-economic reform and sustainable development, trade and	35-40%	€43-49.0 Mio

investment, regulatory approximation and reform		
<u>Priority Area 3:</u> PCA and ENP AP implementation, including in the area of energy security, mobility and security	30-35%	€7-43 Mio
Total	100%	122.5

8.4. Annex 4 Donor coordination Matrix for ongoing Activities in Azerbaijan

<u>Action Plan Area / Sector identified for reform</u>	<u>EU</u>	<u>EU MS</u>	<u>IFIs</u>	<u>Others (non-EU)</u>
Political dialogue and reform	✓			
Democracy and human rights	✓	FI, LT, SL, SE, UK	CoE, OSCE, UNDP	NO, US
Rule of law and judiciary	✓	EL, SE, UK, DE	OSCE, CoE, WB	US
Governance and public administration reform	✓	FR, DE, EL, LT, PL	UNDP, EBRD	NO, US
Promotion of Civil Society	✓	DE		NO, US
Peace and Security				
Conflict Prevention	✓	UK		NO, US
Military and De-Mining		SL	UNDP	
Fight against Terrorism				US
Cooperation on Justice and Home Affaires				
Border management	✓		IMO	
Refugees	✓			NO
Organised Crime	✓	AT		US
Police and Judicial Cooperation		DE	OSCE	
Economic and social reform	✓			
Macro-Economic Reforms	✓	DE	WB	NO, US
Employment, Poverty Reduction and Social Policy	✓	AT, PL, UK, DE	WB	NO, US
Agriculture and Regional Development	✓	FR, EL, PL, DE	WB	US
Sustainable Development	✓	PL, DE	WB	NO
Trade-related issues, market and regulatory reform				

Enterprise Policy / Business Climate	✓	DE	EBRD, KfW	
Trade	✓	PL		US
Customs		FR		
Technical Standards and Regulations	✓	SE		
Sectoral Support				
Transport	✓		WB, EBRD	
Energy	✓	FI, UK DE	WB, EBRD, UNDP	NO
Environment/ Environmental Protection / Climate Change	✓	DE	WB, UNDP	NO
Information Society and Audiovisual		FI, EL, UK		
Research and Innovation		FR		
People-to-people contacts	✓	PL		NO
Education and culture	✓	FR, EL, PL		NO, US
Public Health	✓	EL,LT, PL	WB, UNDP, WHO	US
Other	✓	FR, EL		NO, US

8.5. Annex 5 Description of the MTR document drafting process

The Mid-Term Review (MTR) of the Country Strategy Paper was conducted by the Commission in early January 2009. On the basis of a MTR checklist, the Commission concluded that the CSP for Azerbaijan remains overall valid until the end of the period and no major revision of the paper is necessary. An update was recommended to accommodate the priorities of the Eastern Partnership.

Consultations with the Azerbaijani authorities on this Indicative Programme started in February 2009 with discussions on the Initial Concept Note. More detailed consultations were undertaken during the programming mission in April 2009, when discussions with the main stakeholders took place and the main priorities and sub-priorities of this Indicative Programme were agreed with the relevant Ministries. It was agreed that the future EU assistance strategy should be based on jointly agreed policy objectives of the EU – Azerbaijan Action Plan and support the priorities of the Eastern Partnership, thereby selecting a limited number of priority areas where EU financial assistance would have the most impact.

During the programming mission, consultations with the civil society representatives in Baku and other donors (OSCE, EBRD, Council of Europe, World Bank, World Health Organisation, IMF, and the UK) were also held. Written contributions with comments on the Initial Concept Note were submitted by the International Organisation for Migration and by the UK.

On the basis of the Initial Concept Note and the inputs provided by the Government of Azerbaijan, civil society representatives and other donors, the Final Concept Note was drafted, which was also put on the website of the Commission for public consultation in May 2009. Mid-Term Review discussions were also conducted by DG RELEX with Brussels-based CSO platforms in July 2009.

Through 2009, further discussions on the draft programming documents took place with the National Coordinating Unit of the Azerbaijani Ministry of Economy, which is in charge of coordinating the EU assistance in Azerbaijan.

8.6. Annex 6. Country Environmental Profile for Azerbaijan

1) State of the environment

The key environmental issues in Azerbaijan relate to air quality, water quality, waste management, nature protection, coastal and marine pollution and land use (in particular desertification).

Following a decrease during the 1990s due to reduced industrial production, **air pollution** from stationary sources is again increasing due to intense oil industry and energy production. Emissions from mobile sources are also increasing due to growth in car use.

As regards **water quality**, there is a shortage of waste water treatment facilities and sewerage systems need to be improved. Large quantities of untreated wastewater are discharged into the Kura River, the main water artery of Azerbaijan. There is a shortage of safe drinking water.

Waste management constitutes a challenge, including prevention, collection, treatment, recovery and final disposal. Hazardous waste management requires special attention. Some collection and disposal activities are taking place. Stocks of obsolete pesticides constitute an important challenge.

As regards **nature protection**, Azerbaijan's rich biodiversity is under threat. Forest land has decreased over the last decade, largely due to illegal logging. This process could lead to land erosion, increased desertification, snow slides in mountainous zones, and a significant drop in biodiversity. There are also pressures on biodiversity in the Caspian Sea.

Concerning **coastal and marine pollution**, land and water pollution on the Absheron peninsula around Baku city is severe. Pollution sources include oil pollution, untreated wastewater from Baku city, disposal of solid waste and unregulated storage of hazardous waste.

With regard to **land use**, desertification and soil degradation of agricultural lands is a challenge. Arable lands have tended to degrade due to overgrazing, erosion (in particular due to deforestation), salination, chemical pollution and lack of public awareness.

With regard to **industrial pollution**, most industrial activities are concentrated on the Absheron peninsula (including power industry, oil production and refining industry, chemical industry and metallurgy), in particular in the cities of Baku and Sumgait, entailing severe pollution of the area.

Important **trans-boundary environmental issues** include the use and protection of shared waters – in particular the Kura-Araks river system and the Caspian Sea. The Kura-Araks/Araz river system is an essential source of fresh water for the Southern Caucasus

region and existing problems in the Kura river basin relate to both quantity and quality of water. Water quality is affected by discharges of municipal and industrial wastewaters and return flow from agriculture.

As regards **global environmental issues and climate change in particular**, Azerbaijan acceded to the Kyoto Protocol in 2000 and therefore needs to implement its relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy and heavy industry sectors.

2) Environment policy

The main policy document in environment policy is the State Programme for the Environment for the period 2006-2010. The Ministry of the Environment and Natural Resources is responsible for the provision of guidelines and scientific data needed to support implementation. Furthermore, the **State Programme on Poverty Reduction** for 2008–2015 puts forward priority directions in various environmental sectors.. Azerbaijan also adopted a **National Environmental Action Plan** in 1998, which will be revised or replaced by a new planning document on environment.

A national action plan on the Caspian Sea, an action plan on improvement of drinking water supplies and a hazardous waste management strategy were adopted in 2008-2009. Work is ongoing to develop a waste strategy for Greater Baku, as well as to implement existing strategies and plans, but continued attention is required.

In the field of climate change, Azerbaijan has continued preparing its second national communication, which will also include a greenhouse gas inventory and adaptation measures. Azerbaijan took steps to prepare and approve further Clean Development Mechanism (CDM) projects. No Azerbaijani CDM project has, however, yet been registered at the UN level. The European Commission has continued to support Azerbaijan to implement the Kyoto Protocol.

3) Environmental legislation and implementation

The Constitution of Azerbaijan, adopted in 1995 and amended in 2002, enshrines the right of citizens to a healthy and clean environment. The Constitution also outlines the division of environmental responsibilities between central and local bodies. The Law on Environmental Protection adopted in 1999, together with the Law on Environmental Safety adopted in 1999, is a central piece of legislation in the area of environment policy.

The Law defines State Ecological expertise (SEE), under which environmental impact assessments are applied. It also calls for strategic environmental assessments (SEA), but does not make them mandatory. Public participation is required under SEE. A law was adopted in 2002 on access to environmental information; however, Azerbaijan has not published comprehensive state-of-the-environment reports since 2002 but carries out some activities to inform and involve the public. Concerning access to information and

public participation, the capacities of the three operational Aarhus Centres have been strengthened and steps have been taken with a view to establishing further centres throughout the country. Procedures and consultation with the public in the context of environmental impact assessment continue to require particular attention. Some steps have been undertaken to promote implementation of SEA..

Azerbaijan has adopted some sector and issue-specific legislation, such as on air quality, waste management, nature and biodiversity, forestry, water quality, land use and mineral resources, vibration and noise and on environmental fines. New legislation on water quality is under preparation.

Overall, environmental legislation is in place in several areas but still needs further development, in particular with regard to implementing legislation.

4) Administrative capacity

The Ministry of Ecology and Natural Resources (MENR) was established in 2001, with responsibility for the formulation and implementation of environment policy, development of environmental protection measures, screening of projects for potential adverse environmental impacts, monitoring of implementation of environmental legislation and imposing sanctions, and administering a pollution permit system. In addition, its forestry and fisheries departments are tasked with the promotion of sustainable use of resources.

Broadly, the Ministry has around 20 specialised departments (including Caspian Environmental Monitoring, Department of Forestry and State Environmental Inspection), 5 subordinated research-oriented agencies, 29 regional environment and natural resource departments and 41 enterprises for forest protection and regeneration.

Other government bodies play an important, even if indirect, role, including the Ministry of Agriculture, Ministry of Economic Development, Ministry of Education, Ministry of Fuel and Energy, Ministry of Health, Ministry of the Interior, Ministry of Justice, and Ministry of Transport, the State Committee for Architecture and Construction, the State Committee on Land and Mapping, the State Committee on Land Improvement and Irrigation, the State Statistical Committee, the State Oil Company of Azerbaijan and the State Traffic Police. Each of these agencies has a unit specifically responsible for the environmental dimension of their activities.

Municipalities are responsible for water supply and sanitation activities and land use decisions within their areas of jurisdiction. Strengthening of regional and local environmental structures requires special attention.

Certain steps have been taken with regard to training of staff and further strengthening of environmental monitoring capacities. However, strengthening of administrative capacity at all levels of the country remains a major challenge. Coordination between authorities

requires attention. Some activities have taken place to integrate environment considerations into other policy sectors such as energy.

5) Participation in regional and international processes

Azerbaijan has ratified the relevant international and regional environmental conventions and protocols to which it is party except the Protocol on Strategic Environmental Assessment to the UNECE Convention on Environmental Impact Assessment in a Transboundary Context. The implementation of several ratified agreements requires particular attention.

Azerbaijan participates in environment and climate cooperation under the **Black Sea Synergy** and the **Eastern Partnership**. As these initiatives were launched fairly recently, it is expected that regional and multilateral cooperation will significantly increase.

At regional level, Azerbaijan participates in regional cooperation under **the Caspian Environment Programme**.

Azerbaijan also participates in **the Eastern European, Caucasus and Central Asia component of the EU Water Initiative**, a regional component of the EU Water Initiative, as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders. Azerbaijan is considering whether to request a national policy dialogue under the Initiative.

Azerbaijan also participates in **the Europe and North Asia Forest Law Enforcement Governance (FLEG) process** concerning forest governance and the protection and sustainable management of forests in the region.

Azerbaijan is a co-founder (together with Georgia, Armenia and the European Commission) of **the Caucasus Regional Environmental Centre (REC)** operational under a revised Charter as of 2007. The Caucasus REC, with headquarters in Georgia, sets out to address regional environment issues in the Southern Caucasus through the promotion of regional cooperation between various stakeholders at all levels, involving civil society, governmental bodies, local communities and the business sector. It also aims at fostering public participation in environmental decision-making. Azerbaijan has set up a national country office of the Caucasus REC.

6) Key environment areas where action is required

Azerbaijan faces significant challenges to promote environment protection. Key areas include air quality, water quality, waste management, nature protection, coastal and marine pollution and land use (in particular desertification).

As regards climate change, Azerbaijan needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change and to prepare for

the implementation of a new agreement to succeed the Protocol. Particular attention needs to be devoted to mitigation and adaptation issues, and to ensuring the inclusion of relevant actions in all national plans and budgetary processes. Azerbaijan has significant possibilities to use flexible mechanisms under this Protocol.

Institutional and administrative capacity needs strengthening, in particular as regards strategic planning, implementation and enforcement. Further national support to the Regional Environmental Centre (REC) could assist Azerbaijan in promoting environmental awareness and protection by providing a forum for cooperation between various stakeholders.

Key environment areas where action is required are identified in the environment section of the EU - Azerbaijan Action Plan. It defines a set of priorities for action with regard to environmental governance and issue-specific activities as well as on international and regional cooperation on environment issues. Progress towards implementing the Action Plan will also contribute to achieving the objectives of the Partnership and Cooperation Agreement.