

PROJECT FICHE

Title	Support to the NCU and PCA Implementation, including enhanced Cooperation through the Twinning Instrument		
Indicative cost	€ 11,000,000 <i>EC contribution: € 11,000,000</i>		
Aid Method	Project approach – <i>centralised</i> management		
DAC-code	15110	Sector	Economic and development policy/Planning

1. RATIONALE

1.1. Strategic framework

According to the National Indicative Programme 2004-2006 (NIP), the EU shall provide technical assistance to the Republic of Azerbaijan in two areas of cooperation: Support for Institutional, Legal and Administrative Reform, and Support to the Private Sector and Assistance for Economic Development. Both areas are consistent with the objectives of the State Programme on Poverty Reduction and Economic Development (SPPRED) and other national development programmes adopted by the GoAz. Key objectives for the EU as set out in the NIP are good governance and strengthening of a market economy.

The NIP recognises that Azerbaijan has reached a degree of economic and political stability that gives it the opportunity to address some of its serious structural problems. However, to ensure the reform policies are fully implemented also requires the continuation of a strong EU engagement. The EU's broad objectives focus on the implementation of the PCA that, in turn, have poverty reduction either directly or indirectly as their focus.

The Partnership and Co-operation Agreement (PCA) is the cornerstone of relations between Azerbaijan and the EU. The main focus of EU assistance to the Government of Azerbaijan (GoAz), as identified in the NIP, is the implementation of the programme of legislative approximation and provision of legal and policy advice in the context of the PCA.

The NIP also states that the National Co-ordinating Unit (NCU) has an important role to play in balancing aid requests of line ministries and improving co-ordination between the Commission and Azerbaijan at the programming and implementation level while also facilitating co-operation between both parties.

Assistance in the PCA implementation and support to the NCU are implicitly closely associated and represent two pillars ensuring effective cooperation between the EU and Azerbaijan.

This newly conceived project will allow reinforcing this cooperation, while complementing and continuing projects already financed under previous Action Programmes. It will focus on the support to the implementation of the PCA and transition to the ENP. It will make use of the twinning tool as a mechanism for delivery of capacity building expertise through EU Member States' officials.

1.2. Lessons learnt

From the early stages of the EU–Azerbaijan relations, the NCU played an important role in facilitating dialogue between the parties. The NCU is the executive body of the National Coordinator and the main partner of the Commission for EU technical assistance programming.

To support the NCU in fulfilling its tasks, the Commission provided technical assistance between July 2000 and July 2005 under a single multi-country project called “Technical Assistance to NCUs” (TANCU) covering 12 CIS countries and Mongolia.

TANCU activities focused on strengthening the capacity of NCU staff, thereby contributing to the long-term sustainability of the NCU, on institutionalising links with line ministries, and on establishing working relations between the NCU and the Europa House. Generic and country-specific documents were prepared and disseminated among stakeholders enhancing knowledge about EC procedures and improving absorption capacities of beneficiaries. Training for both NCU staff and beneficiaries was also provided. Induction and on-the-job training for the NCU proved to be an effective form of sharing skills and knowledge with NCU staff.

After 5 years of the TANCU project, and having taken into account the differences amongst the various CIS countries, the EC agreed to provide TA to NCUs financed under individual National Action Programmes. The national support to the NCU in Azerbaijan, currently ongoing, is financed under the National Action Programme 2004. It started on 1 August 2005 and will be completed by 31 July 2007.

The NCU is the main project partner for the TA project “Support to PCA Implementation” (Phase II) which started in January 2004 and will end in July 2006. A follow-up project “Support to the implementation of the PCA, Phase III is planned to continue TA as from July 2006. In addition to the TA provided under the previous two phases, this phase will also assist the NCU in providing economic policy advice.

The aim of the Support to PCA projects has been to assist the GoAz in the implementation of commitments made under the Partnership and Cooperation Agreement and to develop capacity of the European Integration Department of the NCU.

Hence, at present there are two TA projects working in parallel with two different departments of the NCU, namely the Department for Support to EU Technical Assistance Programmes, and the Department for European Integration. Each project has its own capacity building component for the respective department.

A new project supporting the NCU should build on these previous projects “Support to NCU” and “Support to PCA Implementation” and benefit from their experience. Based on this experience, the following conclusions can be drawn:

- i) merger of activities of both projects under one project/contract will ensure synergies and avoid possible duplication of activities;
- ii) PCA implementation activities will focus on legal approximation;

- iii) NCU needs long-term support in EU assistance programming and implementation addressing, in particular, such aspects like decentralised project management and monitoring and evaluation;
- iv) economy of scale will be achieved with better visibility and impact.

1.3. Complementary actions

The European Commission is the only donor providing assistance to the GoAz in building capacities for the PCA implementation and EC technical assistance programming and implementation.

1.4. Donor coordination

The Poverty Reduction Strategy Plan (PRSP) acts as a platform of discussion on areas of cooperation for international donors who base their strategies on this document.

On May 12, 2005 the GoAz signed a Joint Declaration with the WB, IMF, EBRD, ADB and UNDP "On Preparing a Long-Term Poverty Reduction and Sustainable Development Strategy to Achieve MDGs in Azerbaijan by 2015". This new strategy will set policy priorities to be pursued in order to meet its poverty reduction and sustainable development targets for the year 2015, as well as the country's own set of MDG targets. It will also provide the main focus for donor coordination.

At the same time, the GoAz recognises that donor coordination process needs improved institutional mechanisms. Most likely, the Ministry of Economic Development (MED) will take on a share of this function after the reorganisation process has been approved and implemented.

2. COUNTRY CONTEXT

2.1. Cooperation related policy of beneficiary country

The GOAz treats the EU as its strategic partner and sets the EU integration as its priority. The State Commission for Azerbaijan's Integration with the EU was established by Presidential Decree in June 2005 and it has been chaired by the Vice Prime Minister with two deputies: Minister of Foreign Affairs and Minister of Economic Development (National Coordinator of the EU Technical Assistance Programmes for Azerbaijan). The GoAz has declared its commitment to the ENP process. PCA implementation is ongoing and continues establishing strategic framework for EU-Azerbaijan cooperation.

2.2. Sector context

The basic document covering all aspects of EU-Azerbaijan relations, except for defence, is the Partnership and Cooperation Agreement (PCA) which was signed by the EC and Member States in April 1996 and entered into force on 1 July 1999 after ratification by all parties.

The PCA has the aim of providing a comprehensive framework for development of political relations: (1) to support the efforts of the Republic of Azerbaijan to consolidate its democracy and to develop its economy; (2) to promote trade and investment; and (3) to foster co-operation in legislative, economic, social, financial, civil, scientific, technological and cultural fields.

The EU has provided support to Azerbaijan since 1991 in the framework of the Tacis programme. The National Coordinator for EU assistance in Azerbaijan is the Commission's main partner within the partner state government. The position of Tacis National Coordinator is, since 31st of October 2005, held by the recently appointed Minister of Economic Development, Mr Heydar Babayev, who is also the Deputy Head of the State Commission for Azerbaijan's Integration with the EU.

Currently the main tool for supporting the implementation of the PCA is the Tacis programme. As from 2007, a new European Neighbourhood Policy Instrument (ENPI) will be introduced as the basis for cooperation between the EU and Azerbaijan.

Twinning, a new implementation mechanism, is progressively being made available for the first time to Azerbaijan. This instrument aims at assisting Azerbaijan in the upgrading of its Administrations, supporting the legal harmonisation and conformity with EU norms and standards and creating a closer cooperation between the national authorities of Azerbaijan and the EU Member State Administrations.

In order to manage these activities, a Programme Administration Office for twinning operations (PAO) is in the process of being set up in Azerbaijan. The PAO, although hierarchically dependant on the NCU, constitutes a unit exclusively dedicated to twinning operations.

Under Action Programme 2006, ten areas of the PCA have tentatively been identified as suitable sectors to receive further assistance via the twinning instrument. These areas include:

1. Environment; 2. Civil service reform; 3. Tax systems; 4. Standardisation and Certification; 5. Intellectual Property Rights; 6. Phytosanitary measures; 7. Anti-monopoly; 8. Telecommunications; 9. Justice; 10. Transport.

With the earmarked budget, financing will probably be available for approximately 6-7 twinning projects to be selected out of the above-mentioned sectors.

Based on the analysis of the situation in the sector and assessment of the partner's capacity, the following problems have been identified:

- Inadequate capacities and resources in the NCU to ensure effective dialogue between GoAz and EU
- Lack of adequate expertise and capacity for harmonization of Azerbaijan and EU legislation amongst partner organisations and stakeholders (line ministries, regional authorities, professional organisations, NGOs, etc)
- Introduction of the new cooperation instrument (ENPI) will require new skills and capacity for Azeri partners on programme/project preparation, implementation and monitoring
- The NCU has neither adequate status nor mandate to ensure effective coordination of EU aid

programming and implementation

- Logistical restrictions

The National Action Programme 2006, under which the proposed project will be financed, is the last AP under the Tacis regulation prior to the introduction of the European Neighbourhood Policy. This Policy (ENP) puts in place a new type of cooperation. A closer partnership is envisaged not only in political and economical matters, but also in cultural relations with the EU, and also in cross-border cooperation and on exchange programmes. The new Policy should further the bilateral relations with the EU countries and Azerbaijan on the basis of the Partnership and Cooperation Agreement.

Therefore, the NCU should become an even stronger partner in the dialogue between the GoAZ and the EU, ensuring effective EU assistance programming and implementation.

It should be noted that the forthcoming reorganisation of the Ministry of Economic Development will inevitably affect the current NCU structure and its autonomous status.

3 DESCRIPTION

3.1 Objectives

The **Wider Objective** of the proposed project is to strengthen relationships between the EU and Azerbaijan for sustainable economic development, and political and social cohesion.

Specific objectives are:

- To improve and strengthen the planning, coordination, implementation and monitoring capacity of the NCU
- To support the enhancement of the dialogue between the Azeri government and the EU
- To assist the Azeri government in the European Neighbourhood Policy process and the EU approximation/integration.
- To assist Azerbaijan with the approximation of its legislation to that of the European Union (*EU acquis*), in line with the requirements of the PCA

3.2 Expected results and main activities

The proposed project should achieve the following results:

- **Progress on PCA implementation**
 - Laws and measures approved and implemented towards achieving the commitments and objectives of National Programme on Legal Approximation
- **Progress on development of national capacity in relation to EC aid programming and implementation**
 - National capacities on drafting sectoral reviews and pre-programming developed
 - Capacities with regard to ENPI strengthened (guidelines, information materials, tools, training events provided)

- Knowledge of available new implementation tool (twinning), guidelines and basic procedures
 - Capacities on TA Project Monitoring and Evaluation strengthened with focus on evaluation
 - Decentralised TA project management capacity strengthened
 - Relations with future EC Delegation established and maintained
- **Progress on HRD and Visibility**
 - Staff have developed appropriate skills and knowledge on PCA implementation and EC assistance programming and implementation
 - EC visibility capacity developed

The project will assist the Azeri Government with the following activities:

1. Support to PCA Implementation

- Assistance to implementation of obligations under the PCA, approximation of Azeri legislation in compliance with the National Programme on Legal Approximation;
- Monitoring and reporting on the implementation of the PCA;
- Assistance to the relevant parliamentary committees and appropriate government ministries or commissions to identify the priority areas for the assessment of Azeri legislation's compatibility with the relevant EU legislation.

2. Support to EC Assistance Programming and Implementation

- Contribution to the development of Country Strategy Papers, ENP Indicative and Action Plans;
- Preparation of pre-programming documents and submission of these documents to the European Commission;
- Support to the consultation process on draft Indicative and Action Programmes with other stakeholders, such as civil society and private sector representatives;
- Support to the NCU in its functions related to project implementations, namely in EC project implementation and monitoring procedures;
- Support in the development of decentralised project management capacities.

3. Training and Information dissemination

- Development of skills required for local partners to ensure effective dialogue with the EC (training, seminars, and study tours)
- Development of tools raising public awareness and visibility of EU activities (MIS, Website, publications).

3.3 Stakeholders

Main stakeholders:

National Coordinating Unit (NCU)

The NCU is the executive body of the National Coordinator (NC) for European Union Technical Assistance to Azerbaijan and operates under his guidance. In October 2005 the Minister of Economic Development, Mr Heydar Babayev, was appointed National Coordinator by Presidential Decree.

The NCU in Azerbaijan has a legal entity status. The NCU's mission, set forth in its Charter, is to ensure support and coordination of activities of organisations and institutions of the Republic of Azerbaijan benefiting from the EU TA programmes. The principal task of the NCU Technical Assistance Department is the organization and coordination of activities related to EU technical assistance programmes. The current work of the NCU is entirely built on ensuring the implementation of the programming cycle and on keeping track of the implementation of approved technical assistance programmes.

International Donors

Ad hoc meetings of the NCU staff are held with representatives of donor organisations. Information exchange on activities is carried out in the country (implemented projects, strategy, etc). This contributes to better coordination of technical assistance, avoidance of duplication, etc.

Europa House

Europa House was established in Baku in the autumn of 2002. In the absence of an EC Delegation, Europa House acts as a central point of reference in Baku for the EC services. The division of responsibilities between the NCU/TANCU and Europa House was agreed in the autumn of 2002.

PRSP and PCA structures

The NC in his capacity as Minister of Economic Development is responsible for the development and implementation of the PRSP/SPPRED in Azerbaijan. At the same time, in his position as Deputy Chairman of the State Commission on EU Integration, he is also the Coordinator (and the NCU is the Partner) of the second project "Support to PCA Implementation". The current project PCA Phase II started in January 2004.

Thus, the PRSP Secretariat and the NCU both report to the same person – the NC/Minister of Economic Development/Deputy Chairman of the State Commission on EU Integration.

Other stakeholders: line ministries, regional authorities, professional organisations, NGOs, etc. and their relation to NCU.

The NCU is charged with the organisation and coordination of the EU TA in key sectors of the country's economy and acts as a link between the EC and line ministries while providing necessary information and support to all parties.

The NCU has over the years established contacts with a wide range of organisations such as decision-making authorities (the Presidential Administration, the Cabinet of Ministers, the Parliament); Ministries, state agencies and organisations (beneficiaries); EU technical assistance projects and Non-Governmental Organisations.

Some of the aforementioned public authorities will be eligible to benefit from the expertise provided by twinning projects. Such stakeholders may include:

- Ministry of Environment
- Civil Service State Commission
- Ministry of Taxes
- Standardisation and Certification Agency

- Intellectual Property Rights Agency
- Ministry of Agriculture (Phytosanitary department)
- Ministry of Economic Development (Antimonopoly department)
- National Regulatory Agency for Telecommunications
- Ministry of Justice
- Customs Committee
- Ministry of Transport

The European Commission, in close consultation with the Azeri Government via the PAO (Programme Administration Office) will select the entities which will be considered to have the necessary capacity to benefit from twinning projects and the projects which could better be implemented through this tool.

3.4 Risks and assumptions

Assumptions

- Political and economic stability inside Azerbaijan
- Commitment to democratic, and market economy reforms on the part of the GoAz
- Commitment to administrative reforms on the part of the government in general and of the Minister of Economic Development and senior officials in particular

Risks

- Changes to the present on-going reform policy as a result of shifts in the political agenda
- Difficulties may be related to the implementation of new work practices with a view to improving transparency, communication, and coordination between departments
- Economic instability, including in particular disruption of oil prices

3.5 Conditionalities

In order to enable the NCU to fulfil its mission, set forth in its Charter, the Government of Azerbaijan commits itself to adhere to the Decree of the Cabinet of Ministers of 8 April 2003, in particular with regard to the number of NCU staff. The PCA Implementation Division (PCAID) will be strengthened, and professional development plans for its permanent staff will be established. Appropriate office space will be made available for the Programme Administration Office (PAO) for twinning operations.

3.6 Crosscutting issues

The project is of relevance to poverty reduction, good governance and integration to world economy. In its activities it shall follow gender equality principles.

4 IMPLEMENTATION ISSUES

4.1 Implementation method

Centralised management.

The project is intended to be implemented through three separate actions.

One service contract, following one tender for an approximate amount of 3M euro related to the NCU-PCA support.

Twinning contracts (six preparatory actions) for an approximate amount of 1.1 M euro for each action, for a total approximate amount of 6.5M euro.

Indicatively two supply contracts for an approximate amount of 1.5M euro.

Twinning has, for the first time, been made available as an implementation tool under Action Programme 2004. Currently, the Programme Administration Office (PAO) dealing with the implementation of twinning operations is being set up within the NCU. The PAO will be in charge of all twinning activities in Azerbaijan, wherever appropriate and agreed upon between the European Commission and the concerned beneficiary institutions. The PAO will be supported by an EU Resident Twinning Adviser and Local Experts.

4.2 Budget and calendar

The total indicative budget is € 11.0 million, tentatively allocated as follows:

- € 3.0 million for Support to NCU and PCA Implementation
- € 6.5 million for twinning operations to be identified jointly between the EC and the Azeri Government
- An indicative amount of € 1.5 million has been allocated for equipment purchases.

The above breakdown may be adjusted in the course of the implementation of the project.

The contribution of the beneficiary may be in kind through provision of office space and/or accommodation, and the necessary time of government staff or from staff of other publicly funded institutions involved in the project.

The indicative duration of the project is 24 months.

The following estimated calendar is indicatively foreseen for the launch of the tenders:

- Support to NCU-PCA: one service contract following one tender – 2nd quarter 2007
- Purchase of equipment: one supply contract following one tender – 2nd quarter 2007
- Twinning operations: first operation expected to be launched by mid 2007.

4.3 Procurement procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the

Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.


All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.4 Performance monitoring

The project will be monitored according to standard procedures. Quarterly and annual reports will be produced by the contracting party. Objectively verifiable indicators will be agreed upon and included in the direct agreement at the start-up of the project.

4.5 Evaluation and audit

Evaluations and audits will be carried out using standard EuropeAid procedures.

	<p>Logical framework</p>	<p>Project no: N/A Project title: Support to the NCU and PCA Implementation, including enhanced Cooperation through the Twinning Instrument</p>	<p>Country: Azerbaijan Project duration: 2 years Prepared on: February 2006</p>
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Intervention logic	Objectively verifiable indicators	Sources of verification	Assumptions, Risks and Conditions
<p>Overall objectives: Strengthening of the relationships between the EU and Azerbaijan for sustainable economic development, and political and social cohesion</p> <p>Project purpose:</p> <ul style="list-style-type: none"> To improve and strengthen the planning, coordination, implementation and monitoring capacity of the NCU To support the enhancement of the dialogue between the Azeri government and the EU To assist the Azeri government in the European Neighbourhood Policy process and the EU approximation/integration. To assist Azerbaijan with the approximation of its legislation to that of the European Union (<i>EU acquis</i>), in line with the requirements of the PCA 	<p>Increased relevance of EU multilateral aid programmes and projects; approximation of new legislation to EU standards</p> <ul style="list-style-type: none"> Appropriately staffed NCU, responsible for coordination between stakeholders in programming exercises with the EU and for facilitation of other aid co-ordination Clear division of responsibilities of NCU staff All EU programmes managed by NCU Effective links established between NCU and line ministries PCA implementation strategy agreed and approved 	<p>Government decrees; monitoring & evaluation reports; feedback from Europa House and core government officials</p> <ul style="list-style-type: none"> Indicative and Action programmes Donor's action programmes and reports Job descriptions; actual workload Protocols or meeting reports on stakeholder involvement Input in CSP, IP and AP identification missions Systematic application of standard EC procedures 	<p>Political and economic stability in the country; commitment to democratic and market economy reforms of Azeri authorities; commitment to administrative reforms</p> <ul style="list-style-type: none"> NCU is appropriately staffed in accordance with Cabinet of Ministers Decree, and provided with necessary resources to carry out its tasks and responsibilities PCA Implementation Division (PCAID) strengthened; staff development plan established
<p>Results:</p> <ul style="list-style-type: none"> Laws and measures approved and implemented towards achieving the commitments and objectives of the National Programme on Legal Approximation National capacities on drafting sectoral reviews and pre-programming developed Capacities with regard to ENPI strengthened Knowledge of available new implementation tool (twinning), guidelines and basic procedures 	<ul style="list-style-type: none"> Areas of legislative approximation identified, adopted and implemented Priorities and agenda for WTO accession is identified Reviews and draft programming documents submitted to for consideration and decision Seminars and workshops for main stakeholders Programme and Administration Office (PAO) established, appropriately staffed and fully operational 	<ul style="list-style-type: none"> Government decrees and other legislative sources Number of sectoral review reports and quality of priorities agendas guidelines, information material, tools, training events Number of twinning project applications received and evaluated; twinning contracts concluded 	<ul style="list-style-type: none"> Changes to the present on-going reform policy as a result of shifts in the political agenda Low turnover of staff The beneficiary is provided with the necessary resources to absorb the assistance and carry out its tasks Government remains firmly committed to ENPI Acceptance of twinning as a new implementation tool

<ul style="list-style-type: none"> Decentralised TA project management capacity strengthened Staff have developed appropriate skills and knowledge on PCA implementation and EC assistance programming and implementation 	<ul style="list-style-type: none"> Clear responsibilities of NCU staff members in EC external aid programming and procurement procedures Planning, prioritization, coordination and monitoring capacities are clearly established within a fully functional PCA Implementation Division 	<ul style="list-style-type: none"> Staff and budget allocations to NCU PCA Implementation Division meetings, reports and outputs 	<ul style="list-style-type: none"> Difficulties may relate to the implementation of new work practices, increased transparency and communication PCA Implementation Division is provided with necessary and appropriate human resources
<p>Activities:</p> <ul style="list-style-type: none"> Assistance to implementation of obligations under the PCA, approximation of Azeri legislation in compliance with the National Programme on Legal Approximation Monitoring and reporting on the implementation of the PCA Assistance to the relevant parliamentary committees and appropriate government ministries or commissions to identify the priority areas for the assessment of Azeri legislation's compatibility with the relevant EU legislation Contribution to the development of Country Strategy Papers, ENP Indicative and Action Plans Preparation of pre-programming documents and submission of these documents to the European Commission Support to the consultation process on draft Indicative and Action Programmes with other stakeholders, such as civil society and private sector representatives Support to the NCU in its functions related to project implementations, namely in EC project implementation and monitoring procedures Support in the development of decentralised project management capacities Development of skills required for local partners to ensure effective dialogue with the EC (training, seminars, and study tours) Development of tools raising public awareness and visibility of EU activities (MIS, Web-site, publications) 	<p>Specification of inputs</p>	<p>Specification of costs</p>	