

## AZERBAIJAN

### 2002 TACIS ACTION PROGRAMME

#### 1. Identification

<i>Form of programme:</i>	National
<i>Beneficiary Country:</i>	Azerbaijan
<i>Budget year:</i>	2002
<i>Financial allocation</i>	€14 million (including €0.9 million for Tempus to be implemented by DG Education & Culture)
<i>Budget Line:</i>	B7-520
<i>Legal basis:</i>	Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the partner states in Eastern Europe and Central Asia.
<i>Duration:</i>	Contracts financed under this programme shall enter force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005. The technical activities provided for under this programme and all contracts must end by 31.12.2006.
<i>Programming:</i>	Unit ER.E.3
<i>Implementation:</i>	AIDCO Directorate A1
<i>Remarks:</i>	No administrative expenditure will be financed under this programme.

#### 2. Summary of the programme

The Country Strategy Paper 2002-2006 and the National Indicative Programme 2002-2003 for Azerbaijan were approved by the Tacis Committee of 28 November 2001. This Action Programme 2002-2003 is developed fully in line with these strategic documents. The proposed activities are focused in two areas of co-operation: institutional, legal and administrative reform, and support for the private sector and economic development. Two initiatives are proposed for support to institutional, legal and administrative reform: further support for implementation of the PCA (the EU-Azerbaijan Policy and Legal Advice Centre), and support in the field of judicial reform. Four projects will support the private sector and economic development: further support to the Ministry of Fuel and Energy; modernisation of the taxation system; support for financial management of the social benefits system; and support for public procurement reform. In addition, support will be provided through the following small project programmes: Tempus, Customs, Statistics, Policy Advice and the Managers' Training Programme. The programme will also include a small reserve.

### **3. Country update**

- 3.1 A detailed country assessment can be found in the Country Strategy Paper 2002-2006, presented to the TACIS Committee in November 2001. The situation remains largely unchanged since that date.
- 3.2 The political and social stability reached in the country in 1993-1995 has been strengthened, facilitating further progress on structural and institutional reforms in the country's economy. The Government considers the attraction of public and foreign investments both for the oil and gas, and for other sectors of the economy, as one of its priorities and to that end it envisages to undertake appropriate measures.
- 3.3 The Azerbaijan is committed to a peaceful settlement of the Nagorno-Karabakh conflict. The appointment of Presidential representatives at the level of Deputy Foreign Minister in Spring 2002 is a positive development. Both the OSCE Minsk group and the US are expected to make further efforts towards negotiation of a settlement.
- 3.4 One of the main indicators reflecting a state of the country's economic and social sectors, real GDP growth continued and in 2001 was 9.9%. The private sector share of GDP reached 71%. In 2001 foreign investment increased by over 17 % to around \$1090 million, with around 75% of total investments being directed to the development of the oil industry. In 2002 the amount of direct investments is expected to increase further.
- 3.5 Azerbaijan is an important to the EU, especially as it is the EUs largest trade partner in the Caucasus region primarily related to oil and to a much lesser extent cotton and gas. Trade has increased steadily since 1993, as opposed to a general decline across the Commonwealth of Independent States. Azerbaijan acceded to the Council of Europe in 2001. The third European/Azeri Parliamentary Co-operation committee meeting was held in Brussels on the 25/26 February 2002. The main conclusions were that the EU and Azerbaijan would work together on co-operation with the OSCE Minsk group, implementation of the PCA via the Tacis programme, continued development of democracy and human rights, and on implementation of the Poverty Reduction Strategy Paper. The next meeting will be held in October/November 2002.

### **4. Co-ordination with other donors**

- 4.1 During the project identification mission in February, the mission team held a round-table with all Member States present in Baku (France, Germany, Greece, Italy and the United Kingdom) and met the other main donors in Azerbaijan (US, World Bank, EBRD, IFC).
- 4.2 Co-ordination will be of particular importance in the fuel and energy sector, where there is significant Western interest, both from the donor community and from the private sector. Furthermore, support to the Ministry of Taxation and on public procurement reform will need to be co-ordinated carefully with the World Bank. The US Congress recently lifted certain limitations on the scope of their assistance (Article 907). Close contact will be maintained to ensure effective co-ordination of Tacis

support with any expansion of the US programme. In particular, co-ordination on assisting Azerbaijan on WTO issues will be important.

## **5. Lessons learnt from past EC Assistance**

5.1 To date, as stated in the CSP, the EC provided a total of over €335 million from 1992-2001, including over €70 million through the Tacis national action programme allocations. The portfolio comprises 12 on-going projects (as of 1.3.02), worth €30 million.

5.2 First, proposed further support for PCA implementation will benefit from the on-going project. With respect to the potential establishment of an EU-Azerbaijan Policy and Legal Centre (AZPLAC), we will also draw on the experience of establishing and operating a number of similar centres across the NIS region. Second, the proposed further support to the Ministry of Fuel and Energy will clearly build on the activities of the first phase. Particular attention will be paid to developing an effective policy advice component in the subsequent phase.

## **6. Programme Components**

In line with the National Indicative Programme, this Action Programme will focus on two areas of co-operation: support for institutional, legal and administrative reform, and support to the private sector and assistance for economic development.

### ***6.1. Support for Institutional, Legal and Administrative Reform.***

6.1.1 Two main activities are foreseen in the sphere of institutional, legal and administrative reform. First, strengthening the Azeri Government's capacity to implement the PCA remains a high priority. Further support is thus foreseen for PCA implementation (the EU-Azerbaijan Policy and Legal Advice Centre - AZPLAC). The detailed design of Phase II will of course be dependent in part on the progress made under the current phase. However, three key areas are likely to be: legal approximation (Article 43 of the PCA); benchmarking for the implementation of the PCA (a useful tool for identifying priority strengths and weakness in the government's capacity to implement the PCA); and providing targeted support to assist the Government in defining effective policies in the identified priority areas of the PCA. The project will also maintain a regular series of publications in the field of legal and economic developments in Azerbaijan.

6.1.2 The second project will focus on judicial reform, and will comprise two components: first, penitentiary reform; and second, support for judicial supervisors and executors.

#### **6.1.3 Penitentiary Reform.**

Azerbaijan started the reform of the Penitentiary system in 1997 adopting different laws and legislative acts, according to the recommendations of the Council of Europe.

The objectives of the project are:

- 1) further support to the implementation of the Penitentiary and Criminal Laws,
- 2) support to an effective and efficient management of the prisons,

- 3) support to the Penitentiary Training Centre, including increasing awareness of human rights issues,
- 4) development of prisoners' professional skills to prepare them better for life after release (including recommendations for improving the existing legislation in this field).

#### 6.1.4 Judicial supervisors and executors (bailiffs)

The overall objective of the project is the improvement of the efficiency of judicial system. The specific objective of the project is the support to the implementation of the Law on "judicial supervisors and executors". The activities of the project will focus mainly on the assistance on 1) drafting a manual for judicial supervisors and executors; 2) Training ; 3) Recommendations for the improvement of the existing legislation.

### ***6.2. Support to the Private Sector and Assistance for Economic Development.***

- 6.2.1 Four main activities are foreseen in the area of support to the private sector and economic development.
- 6.2.2 Firstly, further support is foreseen for the recently established Ministry of Fuel and Energy. Tacis support was provided under AP 1998, which was ultimately instrumental in the creation of the Ministry. A second phase of support will now aim to clarify the structure of the ministry and its role within the fuel and energy sector in Azerbaijan. Particular attention will be given to improving the legal and regulatory framework with the aim of promoting an open and transparent market, compatible with EU standards.
- 6.2.3 Second, a comprehensive Tax Code became effective as of 1 January 2001. This is a significant step in improving the business environment in Azerbaijan. Tacis proposes to provide support to the Ministry of Taxation in enhancing their capacity to implement the new provisions. Three components are envisaged: support to the establishment of a Tax Training Centre; assistance with automatising a number of aspects of the tax system to streamline procedures; awareness-raising to improve public understanding of, and respect for, the new tax legislation.
- 6.2.4 Third, important legislation has recently been put in place regarding public procurement issues in Azerbaijan. Again, this represents a significant opportunity to help Azerbaijan modernise its public procurement systems. The World Bank has also expressed interest in this field, and intends to launch a project as of autumn 2002. Tacis assistance will focus on capacity-building for the State Procurement Agency, including training of officials and introduction of effective management information systems.
- 6.2.5 Fourth, Tacis will support the institutional development of the new Ministry of Economic Development. This body was created in 2001 and brings together five ministries and state committees into one organisation and represents an important step, for the government, in creating coherent economic and social policies, including realisation of the Poverty Reduction Programme. Tacis assistance will focus on harmonising economic strategies and policies with international standards, assist the ministry with economic analysis and forecasting activities and provide training on up-to-date management practice.

### **6.3 Small Project Programmes**

Allocations are foreseen for the following small project programmes: Tempus, Customs, Statistics, Policy Advice, and the Managers' Training Programme. Tempus is a key instrument of co-operation in the field of higher education. This will be implemented by DG Education and Culture. High quality statistical information is essential for developing well-targeted government policies. Eurostat will continue its co-operation with the Azeri State Statistical Committee. The Managers' Training Programme allows the EC to provide exposure for Azeri managers to EU best practice, and is a key instrument as a human resources component in the area of private sector development. Policy Advice is a useful instrument that allows Tacis to provide support to projects with more limited budgets, where particular needs are identified.

## **7. Complementary EC Assistance**

EC Assistance to Azerbaijan in 2002 may also be provided through the following instruments: the Tacis Regional Action Programme; and the Food Security Programme.

## **8. Programme Implementation**

The Action Programme will be implemented in accordance with the following elements:

### **8.1 Implementation & Management**

8.1.1 Contracts financed under this programme shall enter force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005, being the expiry date of the associated Financing Memorandum. Therefore:

- Any relevant contract or grant must have entered force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered force, having been signed by the signature of all the relevant parties by this expiry date will be not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

8.1.2 The deadline by which all contractual activities under this programme must cease is no later than one calendar year after the expiry date of the relevant Financing Memorandum (i.e. by 31.12.2006). Therefore:

- No addenda to any contract or grant funded by this programme shall be entered into after the implementation deadline<sup>1</sup>.

8.1.3 The Programme will be implemented by the Commission in conjunction with the Azeri authorities on the basis of financing memoranda (see Article 3(5) of Regulation 99/2000), project counterparts and contracting firms and institutions. For the government of Azerbaijan, the general co-ordinating responsibility will be with the Tacis National Co-ordinator, supported by the Tacis National Co-ordinating Unit.

8.1.4 The Programme will be managed by EuropeAid Cooperation Office. The procedures laid down in Art 13 of the Council Regulation (EC, Euratom) No. 99/2000 are applicable to this Programme.

## **8.2 Monitoring, Evaluation and Audit**

### **8.2.1 Monitoring & Evaluation**

In addition to regular follow-up and controls carried out on the spot, if necessary by the Commission services and the Court of Auditors, a contract has been concluded with independent consultants to monitor the programme. This contract covers the whole Tacis programme, and will work upon requirements for periodic assessments of project progress against objectives. These will include on-the-spot visits to projects and interviews with stakeholders. Reporting will be in standardised formats giving scores to aspects of project performance.

### **8.2.2 Audit**

Operations financed under this programme will be subject to supervision by the relevant Commission services and the Court of Auditors to be carried out on-the-spot if necessary. The accounts and records of expenditure under the present Programme may be checked at regular intervals by an external auditor contracted by the Commission, without prejudice to the responsibilities of the Commission, including the European Antifraud Office (OLAF), and the Court of Auditors.

## **8.3 Tendering Procedures**

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation, Council Regulation 99/2000 and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

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<sup>1</sup> Note that the end date for contractual activities refers to project implementation activities, and not the date for submission of final report or final invoice.

## **9. Cost and financing**

The Programme will be financed through a Community grant of €14 million, allocated as follows among the different actions:

<u>Area/Project</u>	<u>Total Area (€million)</u>
<b>1. Support for Institutional, Legal and Administrative Reform.</b>	<b>4.8</b>
- Implementation of the PCA (EU-Azerbaijan Policy and Legal Advice Centre)	
- Judicial Reform	
<b>2. Support to the Private Sector and Assistance for Economic Development.</b>	<b>5.6</b>
- Assistance to the Support to Ministry of Fuel and Energy	
- Modernisation of the Taxation System	
- Support to the Ministry of Economic Development	
- Public Procurement Reform	
<b>3. Small Project Programmes</b>	<b>3.4</b>
- TEMPUS	(0.9)
- Statistics	(0.7)
- Customs	(0.8)
- Policy Advice	(0.5)
- Managers' Training Programme	(0.5)
<b>4. Reserve</b>	<b>0.2</b>
<b>Total</b>	<b>14.0</b>

## **10. Government Commitment. Conditionalities.**

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of Azerbaijan as set out in the Partnership and Co-operation Agreement.

### **LIST OF ANNEXES**

Project fiches with log-frames.