

AZERBAIJAN

ACTION PROGRAMME 2004-2005

1. Identification

<i>Form of programme:</i>	Tacis National Action Programme
<i>Beneficiary Country:</i>	Azerbaijan
<i>Budget year:</i>	2004
<i>Budget line</i>	190601
<i>Financial allocation</i>	€15 million (including € 0.75 million for Tempus to be implemented by DG Education & Culture)
<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>Contracting</i>	All Contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
<i>Biannual Programming:</i>	AIDCO A2
<i>Implementation:</i>	The implementation of projects under this proposal must be concluded by 31.12.2009. Therefore all technical activities provided for under this programme and all contracts must end by 31.12.2009. . The method of implementation is centralised with the EC as Contracting Authority
<i>Related CSP/NIP</i>	CSP 2002-2006 and NIP 2004-2006
<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 2004-2006 for Azerbaijan were approved by the Tacis Committee of 23 February 2003. This Action Programme 2004 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.

Five actions are proposed under the area of cooperation “Support to institutional, legal and administrative reform”:

- further support for implementation of the PCA (the EU-Azerbaijan Policy and Legal Advice Centre),
- support in the domain of integrated border management including modernisation of the State customs committee and combating trafficking in people,
- further support in improved targeting of social assistance system,
- support to the NCU,
- support to the transport sector reform.

Two projects will be funded under the area of cooperation “Support for the private sector and economic development”:

- support to regional economic development;
- introduction of International Accounting Standards (IAS), phase II;

Other projects: Additionally, the Institutional Building Partnership - Civil Society (IBPP) and Policy Advice (PAP) programmes will be used as instruments for the preparation of further administrative reforms. Support will also be provided through the Tempus Programme, an allocation for a statistics project and a small reserve.

3. Country update

A detailed country assessment can be found in the Country Strategy Paper 2002-2006, presented to the TACIS Committee in November 2001. The analysis made at the time is still appropriate for today. However, Presidential elections in October 2003, which put Mr. Ilham Aliyev in power and the death of former President Heydar Aliyev may eventually lead to changes in the political situation in the country. So far President Ilham Aliyev has kept the previous government team in place and has pledged to continue implementing his father's policies and ideas.

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. One of the Government's priorities is to attract public and foreign investments for the oil and gas as well as other sectors of the economy. Azeri authorities are committed to undertake the appropriate measures. The new President issued a decree on measures to accelerate socio-economic development in November 2003, while the State Program on social economic development of the regions was approved in February 2004. Activities to implement these new strategies are to be started soon.

Real GDP growth, one of the main indicators reflecting the state of the country's economic and social sectors, reached 10.6 % in 2002. The private sector share of GDP reached 73%. In 2002 foreign investment increased by over 104 % to around \$ 2234.9 million. This increase is largely due to the investments related to the Baku- Tblisi-Ceyhan pipeline. Around 75% of the total foreign investments is being directed to the development of the oil industry. Statistics for 2003 are not yet available but the amount of direct investments is expected to have increased further.

Azerbaijan is important to the EU, especially as it is the EU's largest trade partner in the Caucasus region primarily related to oil and to a much lesser extent to cotton and gas. Trade has increased steadily since 1993, as opposed to a general decline across the Commonwealth of Independent States. The fourth European/Azeri Parliamentary Co-operation committee meeting was held in Baku on the 28-29 April 2003. 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 .

On 14 June 2004 the Council decided to include Azerbaijan together with the two other southern Caucasus countries in the European Neighbourhood Policy. This marks a significant step forward in the EU's engagement with this region. Each country will be given the same possibility to develop its links with the EU and will be treated on its individual merits in line with the general policy of the ENP

4. Lessons learnt from past EC Assistance

To date, as stated in the CSP, the EC has allocated a total of over €400 million during the period 1992-2006, including €116.5 million through the Tacis national action programme allocations. The portfolio comprises 16 on-going projects (as of 1 March 2004), worth €22 million.

The projects proposed under this National Action Programme build on the activities started in previous Action programmes and are focused on supporting the poverty reduction strategy of the government of Azerbaijan. The 2004 AP continues institution building regarding the cooperation between the EU and Azerbaijan through a third PCA support project and the support to the NCU. It builds on experiences gained in economic development projects such as support to the development of International Accounting Standards, support to the Ministry of Taxes, Customs and support to the Ministry of Economic Development as well as in Policy Advice projects implemented previously. Furthermore, in the sector of institutional, administrative and legal reform continued support to social protection, build on the achievements, developments and findings of previous phases as well as experience gained in other transition countries will contribute to the poverty reduction strategy.

5. 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.

5.1. Support for Institutional, Legal and Administrative Reform.

Four main activities are foreseen in the sphere of institutional, legal and administrative reform.

5.1.1 Strengthening the Azeri Government's capacity to **implement the PCA** remains a high priority and further support is thus foreseen for PCA implementation. The detailed design of Phase III will be greatly dependent on the progress made under the current phase II. However, three key areas are likely to be focussed on: legal approximation; 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 and other information tools in the field of legal and economic developments in Azerbaijan.

- 5.1.2 The second project will focus on **border management** and modernisation of the **customs services**. The development of a pilot integrated border management project on the border with Iran should allow the support to the efforts already undertaken in order to modernize the very recent independent State Border Service. The project will include legal assistance, training, and refurbishment of facilities and equipment of the border guards and customs units. The project should develop the links with the customs services in the field and combine border protection, fight against trafficking (drugs, human beings, and weapons of massive destruction...) and also facilitation of the flows of goods and people across the border. The coordination with others donors, notably the US Caspian Sea Initiative, should allow to increase the impact of this action, which should be implemented and co-financed by International Organisation for Migrations (IOM) with the agreement of the beneficiary services. This project should also complement the Tacis regional funded SCAD programme, on the “Landborder” component.
- 5.1.3 The third mainstream project will build upon the work carried out and the achievements of previous Tacis activities in the field of **social protection**. This area remains a priority in the poverty alleviation strategy of the Azeri authorities and the EC is committed to continue its support to the on-going reform of the social assistance sector. In this way, it will contribute to enhance the capacity of the MOLSP to develop and implement poverty alleviation policies in the field of social assistance. The details of the project will be influenced by the progress made in the interim with the support of a short Tacis technical assistance intervention, as well as the World Bank’s and other donors’ contributions. However, the main focus of activities are foreseen to be a) the setting up of a policy advice body on social assistance; b) developing mechanisms for targeting beneficiaries and c) training and capacity building for social assistance targeting. The main target group shall be child beneficiaries. Additional activities and beneficiary groups will be included based on the social needs and Azeri priorities at the time of the preparation of the terms of reference.
- 5.1.4 The **transport sector** and its newly created Ministry of Transport shall also be a focus of the present Action Programme. The strategic national and regional importance of the Azeri transport sector as well as its key position at a crossroad of international transport corridors, require the establishment of a modern and effective transport authority. The EC’s intervention intends to support the Ministry in the establishment of a functional policy-making and effective management body in line with Western legal, administrative and technical practices. Support will be provided in the form of policy and regulatory advice in view to a) integrate scattered transport functions and services, b) re-structure sub-sectoral departments, c) propose the privatisation of transport activities in accordance with principles of free market economies. It is also foreseen to carry out staff training activities as well as establishing a management information system.
- 5.1.5 Finally, the present Action Programme shall include provisions to provide technical assistance to the **National Co-ordinating Unit (NCU)**. The NCUs have been established in each Tacis partner state to provide assistance to National Co-ordinators in their relations with the European Commission at key stages of the programming cycle. The NCU is a Government institution headed by a local Executive Director and staffed with a team of national officials and/or experts and with necessary logistical and secretarial support.

Its aim is to support the national authorities to participate in the sound preparation and effective implementation of projects and to ensure a high quality Tacis programme. The project intervention will concentrate on providing assistance to the NCU to achieve a) an effective collaboration in the preparation of country strategy papers, indicative programmes and action plans; b) the identification, analysis and elaboration of project proposals jointly with line ministries and other governmental and non-governmental bodies taking into account other donors' activities; c) a constructive support to and monitoring of on-going projects. The immediate objective of the project is to improve and strengthen the planning and co-ordination capacity of partner governments in relation to EU support, in the framework of related external assistance programmes.

The Action Programme also envisages to enhance support to the administrative reform process through the IBPP, support to statistics and policy advice projects in different sectors.

5.2. Support to the Private Sector and Assistance for Economic Development.

Two main activities are foreseen in the area of support to the private sector and economic development.

5.2.1 Support to encourage economic development and diversification, including support for development of SMEs and local market infrastructure for entrepreneurship in less developed regions

Further support is foreseen for the Ministry of Economic Development in the framework of the "**Support to regional economic development**" project.

Economic reforms conducted in the last ten years in the Republic of Azerbaijan have ensured establishment of macro-economic stability in the country. However, the main economic activities remain concentrated in the oil sector and in a few regions, mainly in the Capital Baku and the Absheron Peninsula. The diversification and development of the non-oil sector as well as to the promotion of economic growth throughout the country is, therefore, of great importance for the Government of Azerbaijan. The government intends to reach a stable development of the economy, raise employment, and decrease poverty by accelerating the development of entrepreneurship in the regions and by efficiently using their natural and economic potential. The strategy of the government to reach these objectives have been outlined in the State Programme on Socio-Economic Development of Regions of Azerbaijan Republic (approved on February 11, 2004) which covers the development needs of the regions for the period 2004-2008. In order to support the Government of Azerbaijan in the implementation of this Programme, the "Support to regional economic development" project will have the following components:

- institutional building support to the Ministry of Economic Development and to the regional development structures to be set up by the MED.
- support to entrepreneurship in the regions by means of an enhanced provision of advisory services and improved access to credit
- assessment of the economic potential of two economic viable regions
- support to export promotion

5.2.2 Introduction of International Accounting Standards (Phase II)

The reform of financial reporting in Azerbaijan began in late 2002 with the drafting of the Five Year Plan by the Ministry of Finance (The “Programme of Development of National Accounting Standards for 2003-2007 aiming at introduction of IAS”). To assist the reform process, Tacis implemented an initial 18-month project, “Introduction of IAS” which started in January 2003. This project assisted the further development of the enabling law and a strategic plan for the introduction of accounting reform.

Building on the work conducted in the first phase, the new project will continue support to the Ministry of Finance in the development and introduction of National Accounting Standards base on IAS. Other main components of this second phase will be:

- To assist in the wider dissemination of IAS compliant accountancy skills
- To support the development of the Code of Ethics aiming to promote the status of accounting profession.
- To prepare a needs analysis in order to determine the resources necessary for a large tax-payer’s accountancy system to be compliant with IAS.

5.3 Small Project Programmes

The Tempus programme is the answer that the EU has developed to support the modernisation of higher education in the Tacis partner countries. It combines bottom-up approaches whereby initiative is left mainly to universities, with a top-down approach, whereby national priorities are established in close co-operation with the national authorities with a view to maximise the impact of the programme on the ongoing reform processes.

Despite some internal resistance, the Government of Azerbaijan has embarked on a major reform of its education sector based on the Education Reform Programme of 1999, and the Ten-year Education reform Strategy (2003-2013) prepared by the Ministry of Education. The main purpose of the education reform is to improve the quality of education and to realign the entire sector with the needs of the emerging market economy and new social environment.

The Government therefore has made considerable efforts to protect education expenditures: in 2001, the share of education in GDP was 4.8%, although in constant prices, public spending on education has sharply declined, mainly because of an overall GDP decline.

The main challenges facing the Azerbaijan education system are a reduction in the quality of education services, largely due to declines in spending, the growing inequities in access to quality education, the inefficient use of available resources, and the weak management, planning and monitoring capacity at all levels of the education system.

Support to Statistics will be continued: the main aim is to provide support for the development of a sustainable statistical system. This includes improvement of data availability, quality and comparability in compliance with the requirements of the PCA, introduction of international statistical methodologies, classifications and standards. Of particular importance is the development of social statistics as necessary tool for monitoring the poverty reduction and economic development strategies and improvement of foreign trade statistics. The TA includes developing local skills and know-how and the

introduction of adequate IT infrastructure. Capacity building has to include improvement of statistical knowledge in regional statistical offices.

6. Complementary EC Assistance

EC Assistance to Azerbaijan in 2004 may also be provided through the following instruments: the Tacis Regional Action Programme, the Food Security Programme, and EXAP. Also in the framework of the EC-EBRD Investment Preparation Facility Action Programme, Azerbaijan is eligible for projects aiming at leveraging EBRD investments.

7. Co-ordination with other donors

Co-ordination is of particular importance regarding regional economic development, where there is significant donor interest including the Member States. Furthermore, the support to the border management services and customs will have to be carefully coordinated with the US. The support to the Social Protection Sector will have to be coordinated with the World Bank and the support to the transport sector will have to be coordinated with the EBRD. In general, close contact will be maintained with the US to ensure effective co-ordination of Tacis support with US initiatives, while coordination with the World Bank and ADB regarding the implementation of the PRSP strategy, as well as the recent Presidential Decrees for Socio-Economic development is essential.

8. Programme Implementation

8.1 Time-limit for signing the financing agreement

The financing agreement must be concluded at the latest by 31 December of the year following that in which the corresponding global financial commitment was adopted. Failing this, the funds assigned to it will be cancelled.

8.2 Performance period

- (a) The implementation period of the financing agreement starts with the entry into force of the financing agreement and ends 31.12.2011.
- (b) This performance period falls into two separate phases:
 - (i) operational implementation of the main activities. This phase starts with the entry into force of the financing agreement and ends 31.12.2009.
 - (ii) a closure phase during which the final audits and evaluation are carried out along with technical and financial closure of the contracts implementing the financing agreement. This phase starts with the end of the operational implementation phase and closes at the end of the performance period.
- (c) Expenditure arising from the main activities is not eligible for Community financing unless it is incurred during the operational implementation phase. Expenditure arising from final audits and evaluation and from closure activities is eligible until the end of the closure phase.
- (d) Any remaining balance of the Community contribution will be cancelled automatically six months after the end of the performance period.

8.3 Procedures for the award of contracts and of granting of subsidies

<u>Project Title</u>	Indicative Tendering Procedure	Indicative Contracting Calendar
1. Implementation of the PCA	Services contract	First half 2006
2. Improved border management and combating trafficking in people	Grant (IOM)	First half 2005
3. Improved targeting of social assistance and improvement of the administrative structure of the pension security system	Services contract	First half 2005
4. Support to the NCU	Services contract	Second half 2005
5. Support to the transport sector reform	Services contract	First half 2005
6. Support to regional economic development	Services contract	Second half 2005
7. International Acc. Standards II	Services contract	First half 2005
TEMPUS programme	Grants following call for proposal	May 2005
Institutional Building Partnership Programme (IBPP)	Grants following call for proposals	Second half 2005
Statistics	Services contract	Second half of 2005

All contracts implementing the financing agreement must be awarded using the standard Commission procedures and documents for implementing external operations in force at the time the procedure is initiated.

8.4 Contracts implementing the agreement

- (a) The contracts which implement the financing agreement have to be signed by the two parties within three years of the Commission's adoption of the financial commitment. This deadline may not be extended. At that date any non-contracted funds will be cancelled.
- (b) Any contract that has not given rise to any payment within three years of its signing will be terminated automatically and the funds cancelled.

8.5 Monitoring, evaluations and audits

Appropriate planning and regular monitoring throughout implementation in the form of regular reports will take place. Evaluation during implementation and at the end of the programme, audit of programme will also take place.

Point 8.4(a) does not apply to audit and evaluation contracts, which may be signed later.

9. Cost and financing

The Programme will be financed through a Community grant of €15 million, allocated as follows among the different actions:

Area of Co-operation 1 : Support to Institutional, Legal and Administrative Reforms	Millions euros 7.0
1.1. Support for the Implementation of the PCA (Phase III)	
1.2. Integrated border management and combat trafficking in persons	
1.3 Reform of the Social protection system	
1.4. Support to the Ministry of Transport	
1.5. Support to NCU	
Area of Cooperation 2 : Support to the private sector and assistance to economic development	5.0
2.1. Support to Regional Economic Development	
2.2 Introduction of International Accounting Standards (Phase II)	
Other projects	3.0
3.1 TEMPUS	0.75
3.2 Policy Advice	0.90
3.3 IBPP	0.60
3.4 Statistics	0.50
3.5 Reserve	0.25
TOTAL	15.0

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.

ANNEXES

Project fiches with log-frames.