

ENPI Monitoring in Azerbaijan

Report

September 2009, Baku

This report is based on the ENPI evaluation studies for Azerbaijan, Armenia, Georgia, Moldova and Ukraine. It was prepared by experts from the Azerbaijan National Committee for European Integration (ANCEI): Dr. Inqilab Ahmedov, Dr. Leyla Aliyeva and Samir Isayev, with funding from the Open Society Institute's Local Government and Public Services Reform Initiative (LGI Budapest).

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ABBREVIATIONS

| | |
|----------|--|
| AAP | Annual Action Program |
| AP | Action Plan (also: ENP Action Plan or EU-Azerbaijan ENP Action Plan) |
| CBC | Cross-border Cooperation |
| CoE | Council of Europe |
| CS | Civil Society |
| CSP | Country Strategy Paper |
| DG A DCO | EC EuropeAid Co-operation Office |
| DG RELEX | Directorate-General for External Relations |
| EBRD | European Bank for Reconstruction and Development |
| EECCA | Eastern Europe, Caucasus and Central Asia |
| E B | European Investment Bank |
| EIDHR | European Initiative for Democracy and Human Rights |
| ENP | European Neighborhood Policy |
| ENPI | European Neighborhood and Partnership Instrument |
| EOM | EU Election Observation Missions |
| ERDF | European Regional Development Fund |
| EU | European Union |
| GF | Governance Facility |
| F | International Finance Institutions |
| MDG | Millennium Development Goals |
| MoU | Memorandum of Understanding |
| NGO | Non-governmental organization |
| N F | Neighborhood Investment Fund |
| N P | National Indicative Program |
| NPP | Neighborhood and Partnership Program |
| OECD | Organization for Economic Cooperation and Development |
| OECD DAC | OECD Development Assistance Committee |
| OSCE | Organization for Security and Cooperation in Europe |
| PCA | Partnership and Cooperation Agreement |
| RIP | Regional Indicative Program |
| RSP | Regional Strategy Paper |
| SME | Small and medium enterprises |
| TACIS | Technical Assistance for the Commonwealth of Independent States |
| TAIEX | Technical Assistance Information Exchange Unit |
| TA EX | Technical Assistance and Information Exchange |
| UNDP | United Nations Development Program |
| UNECE | United Nations Economic Commission for Europe |
| WTO | World Trade Organization |

INTRODUCTION

An agreement on cooperation between the EU and Azerbaijan was first signed in 1996 in the legal form of a Partnership and Cooperation Agreement that came into force in 1999.

Since 1991, the EU as a whole has provided aid worth some €400 million to Azerbaijan, through the TACIS program with its national and regional components, the TACIS Exceptional Assistance Program (EXAP), the Food Security Program (FSP), rehabilitation activities in the post-war period, thematic budget support under the European Initiative on Democracy and Human Rights (EIDHR), and humanitarian assistance through ECHO.

In 2003, a new era began between the European Union and Azerbaijan. By including Azerbaijan in its neighborhood, the EU has established new forms of cooperation. With the adoption of the European Neighborhood Policy by the European Commission that same year, National Action Plans were signed to form the political foundation of this new policy in each partner country. In 2007, the European Commission developed a new funding instrument, the European Neighborhood and Partnership Instrument (ENPI).

The ENPI has three strategic objectives:

- supporting democratic transition and promoting human rights;
- fostering the transition towards a market economy and promoting sustainable development;
- developing policy in areas of common interest: anti-terrorism, elimination of weapons of mass destruction, conflict resolution, rules of international law, and so on.

For 2007-2013, the EU has increased funding for its European Neighborhood partners and the Russian Federation by 35% compared to the previous seven-year period to more than €12bn. After the EC decided how to distribute these funds, Strategy Papers and Indicative Programs covering national, regional and cross-border programs were adopted to cover years 2007-2010. Of the €5.6bn available for these four years, 73% is to go on country programs. The rest will be spent on regional and cross-border cooperation and to support governance to promote investment through two new facilities: the Governance Facility and Neighborhood Investment Fund.

The Eastern states of the ENP are united by the common traits of a soviet legacy. Along with institutional traditions and weakness and a lack of checks and balances that contributes to the rigidity of the state machine and even to systemic resistance to reform, they have highly-educated and modernized societies, with significant potential for both reform and integration with the EU. Along with that, each of the ENP Eastern states has its own specific features, which need to be taken into account when designing and implementing assistance. Shared and unique characteristics, such as corruption, a shadow economy, rent-seeking political elites, state capture, widespread monopolies, and energy-intensive development demand greater participation on the part of civil society in the programming and implementation of the European Neighborhood and Partnership Instrument.

The EC plans to allocate total of €92mn through this financial instrument to implement specific projects in Azerbaijan, in accordance with the priorities defined in the Country Strategy Paper (2007-2013) the National Indicative Program for 2007-2010, and Annual Action Programs.

Compared to the other FSU states that are ENP partners, such as Ukraine and Moldova, Azerbaijan and its fellow South Caucasus republics – Georgia and Armenia – are behind in the ENP implementation process, due to fact that they signed their first Action Plans much later. Unlike Ukraine, ENP implementation is in its early stages. The EC delegation in Azerbaijan replaced Europa House only in 2008.

At the same time, Azerbaijan has a special importance for the EU as an energy producer, in particular in the context of demand for gas in the Union. The significance of Azerbaijan as an energy partner was confirmed with the signing the EU-Azerbaijan Energy Memorandum in 2006, in addition to the ENP Action Plan.

This offers both opportunities and challenges along the path of ENP implementation. Azerbaijan's special status as an energy producer creates an additional dimension for integrating into the EU; on the other hand, as this study shows, this same status could weaken financial incentive and decrease the power of this new instrument – being based on conditionality. This could then leave the political aspect of integration trailing behind the economic and reduce the prospects of integration to the strictly rent-seeking interests satisfied by EU-Azerbaijan cooperation.

The effectiveness of ENPI, which requires greater "ownership" on the part of participating countries and of its funding instruments, depends on how much the individual political and economic features of each country are taken into account in designing and evaluating aid. In post-soviet states, the common and individual characteristics of states in transition call for thorough ENPI monitoring and evaluation mechanisms, including greater involvement of civil society. The new program and instrument offer Azerbaijan new opportunities, the most effective use of which could be achieved if all stakeholders, including civil society, become proactive at all stages of planning and implementation.

The team of experts on Azerbaijan's National Committee has studied written sources, consulted with and interviewed a wide range of actors, such as representatives of the EC, NGOs and the Azerbaijani government, in preparing this report.

1. ENP AND ENPI

1.1. The political situation in Azerbaijan: The curse of black gold

The macroeconomic stability established in Azerbaijan in the mid-1990s brought praise from both IFIs and Western countries, but further reforms, such as privatization¹ in particular of blue chip state companies, especially in the oil industry², stumbled. The reform process followed the familiar pattern of an oil-rich state, when the rents from the sale of the commodity allow the state³ meaning the government and its political elites⁴ to survive without needing to collect taxes. This, then, becomes the basis for relations between the state and its citizens. This also serves as a disincentive to reform: the availability of significant resources makes it possible to buy political and social support by erecting a system of political patronage that penetrates all areas of public life. Thus, corruption becomes a factor that actually provides stability in the system. As the economic interests of investors place stability above other factors, perceiving it as an added value in the current regime, opposition to corruption is unlikely to come from within the system.

The other side-effect of hydrocarbon wealth developed in the absence of mature institutions of public scrutiny that can be seen in Azerbaijan is an eventual asymmetry that becomes *state vs society*.⁵ This phenomenon emerged after the mid-1990s, with the signing of the *Contract of the Century*,⁶ when foreign investments in the state-owned oil sector strengthened the hand of the state rather than civil society, which was under funded by foreign donors for a variety of reasons. The latter is clearly reflected in the total amounts of aid from the EU and US to Azerbaijan are compared to what went to neighboring Georgia and Armenia. This trend continued into the new millennium, when aid still did not reflect the ratio of the country's population.¹

Azeri officials developed the knack of using *reform* as a disguise to strengthen patronage and further monopolize power.² Along with less-sophisticated lip service regarding the conduct of reforms, when commitments to implement remain on paper only, this capacity to *upgrade authoritarianism* is one of the main risks in the implementation of the ENPI as well. Together with rampant, systemic corruption, these risks mean there is a need for greater transparency in the process of allocating, disbursing and spending ENPI funds. In a situation where politicians control the judiciary and the legislature merely *rubber stamps* laws, public scrutiny and participation become crucial to avoid ENPI implementation going awry.

Regularly manipulated elections coupled with the divide between state and society caused by oil rents, make transparency in the EU-Azerbaijan negotiations on priorities, policy implementation and instruments even more important. A closed negotiation and priority-setting process with such a deep divide between the state and its society risks that any agreement will be limited to the narrow interests of Brussels and Baku bureaucrats.

The ENP Action Plan is an attempt to address the individual characteristics or obstacles to the reform process in Azerbaijan's case and lists transparency in the distribution of oil revenues as one of the main remedies against these flaws. However, with such a powerful disincentive for reform as oil rents, the role of Azeri society³ civil society, media and political parties⁴ as the main driving force in the reform process and a genuine partner to the EU becomes even more

¹ The typical response of aid officials was that Azerbaijan had *sufficient resources of its own*.

² This happened with some structural IFI reforms, when the requirement to reduce the ministerial staff was met by firing more qualified employees who were perceived as *less loyal* by the Ministers.

critical. A more transparent election process, greater separation among the three branches of power, and the exercise of basic freedoms constitute a necessary prerequisite for the fair distribution of resources in this resource-rich state. In this context, joint ownership, Twinning and ENPI conditionality are essential, but not sufficient to ensure effective application of the instrument.

A number of laws and administrative measures have been undertaken in Azerbaijan to curtail basic freedoms in recent years. The 2009 referendum on amendments to the Constitution was an example of the rollback in terms of reforms. The proposed amendments, in addition to raising Presidential term limits, would significantly limit press freedoms as well. Most recently, suggested amendments to Azeri legislation set severe restrictions on the activities of both NGOs and the media.

While Azerbaijan initially proposed quite ambitious objectives for integration into European structures, the trend has been to replace integration by more modest goals that would not undermine the status quo of the current political elite.³ By contrast, Azeri society's civil society, independent media and the opposition have consistently promoted rapid, full-fledged integration into the EU. It was due to a widespread, consistent campaign initiated by the Azerbaijan National Committee on Integration in Europe, an NGO supported by the press and opposition, that the provision on EU aspirations was included, like other ENP states, in the Action Plan of Azerbaijan. Despite a risky and unfavorable environment, non-state actors are rigorously pursuing democracy, human rights and independent media agendas across the country.

1.2. ENPI in brief

Launched in 2007 as a policy-driven replacement to the MEDA and TACIS programs, the European Neighborhood and Partnership Instrument (ENPI) is the principal financial instrument used by the European Community to provide assistance to countries in Eastern Europe, the Southern Caucasus, and the southern Mediterranean region⁴.

EC Regulation (EC) 1638/2006 sets up the legal framework for the operation of ENPI programs and funds allocated by the EU. It also lays out the fundamental principles of ENPI assistance: complementarity, partnership and co-funding. Indeed, ENPI assistance is to complement or contribute to national, regional or local strategies and measures. Regulation 1638 states:

“ Community assistance under this Regulation shall normally be established in partnership between the Commission and the beneficiaries. The partnership shall involve, as appropriate, national, regional and local authorities, economic and social partners, civil society and other relevant bodies.”

“ The beneficiary countries shall associate the relevant partners as appropriate, in particular at regional and local level, in the preparation, implementation and monitoring of programs and projects.”

³ In Kyiv, Azeri Foreign Minister Elmar Mamedyarov stated, at the opening of GUAM/ODED HQ in February 2009, that, for Azerbaijan, the priorities of the Eastern Partnership were the energy, economic and humanitarian spheres.

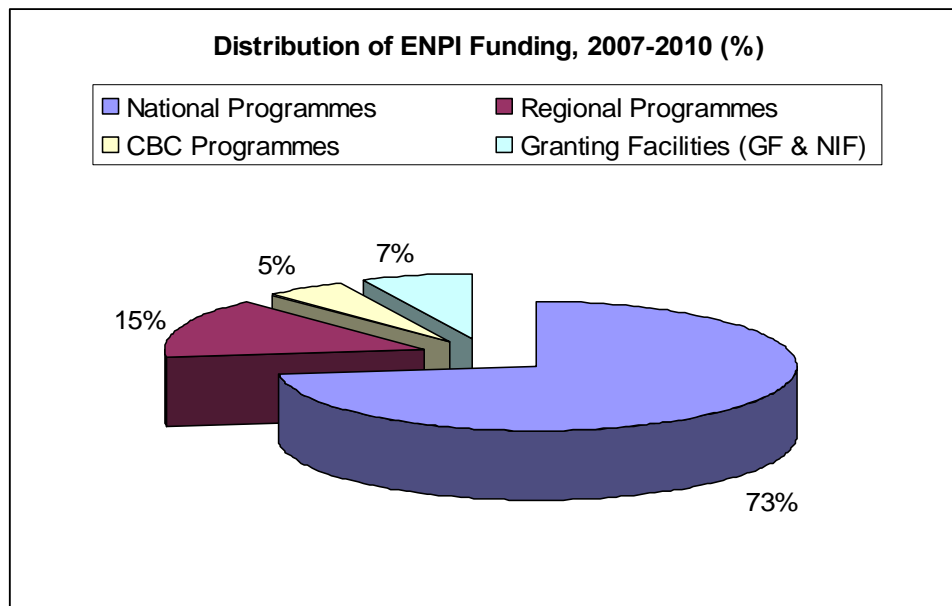
⁴ The Russian Federation also receives financial assistance through ENPI.

ENPI assistance is disbursed through three types of programs:

1. 16 national programs (one for each of the 16 participating countries);
2. Three regional programs (one each for the East and the South, and one trans-regional program covering both);
3. 15 Cross-border-Cooperation (CBC) programs.⁵

The total ENPI assistance budget for 2007-2013 is over €12bn, a 35% increase over the previous seven-year period. National programs account for the lion's share of this spending – €4.1bn or 73% of the €5.6bn available for 2007-2010. Next come regional cooperation with €828mn or 15% and cross-border cooperation with €227mn or 5%. The remaining €400mn or 7% is to support the Governance Facility and the Neighborhood Investment Fund (Fig.1).

Fig. 1: Distribution of ENPI Funding, 2007-2010



National, regional, and CBC programs have their priorities defined in three essential documents:

- **Strategy Papers (SPs)** establish the principal reference framework for ENPI programs. They cover the entire seven-year span of the EC's Financial Perspective,⁶ although they are reviewed at mid-term, and set out the priority areas for action. Current SPs cover the period 2007-2013.
- **Indicative Programs (IPs)** are drafted twice per Financial Perspective: at the outset and at the three- or four-year marks. They establish the funding allocations for each priority in the Strategy Paper. Current IPs cover the period 2007-2010.
- The operational aspects of national and regional program implementation are defined in **Annual Action Programs (AAPs)**, which identify the projects to be financed and set their allocations. As such, they are the key document for the actual commitment of EU funds under these programs. CBC programs are concretely implemented through seven-year **Joint Operational Programs (JOPs)**, which identify priorities and

⁵ <http://www.enpi-programming.eu/wcm/en/regional-updates/cross-border-cooperation.html>

⁶ The EU Financial Perspective is the seven-year budgetary framework agreed by the Council, the Commission, and the Parliament.

objectives and include indicative funding allocations. Actual financing decisions are made in seven-year financing agreements.

Scheme 1. ENPI Programming Documents

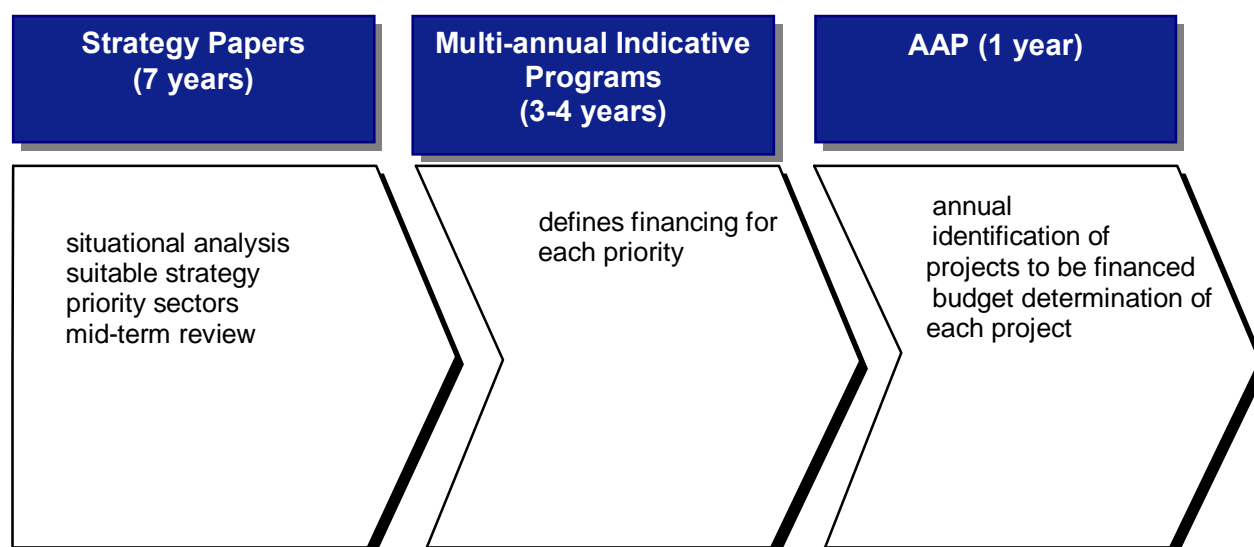


Table 1. ENPI Indicative Multi-annual Allocations for 2007-10

| Programs | Million EUR |
|---|--------------------|
| Multi-Country Programs | 827.6 |
| Inter-regional Programs | 260.8 |
| Regional Programs ó South | 343.3 |
| Regional Programs ó East | 223.5 |
| | |
| Country Programs | 4,116,50 |
| Algeria | 220 |
| Armenia | 98.4 |
| Azerbaijan | 92 |
| Belarus | 20 |
| Egypt | 558 |
| Georgia | 120.4 |
| Israel | 8 |
| Jordan | 265 |
| Libya | 8 |
| Moldova | 209.7 |
| Morocco | 654 |
| Palestinian Authority | 632 |
| Syria | 130 |
| Tunisia | 300 |
| Ukraine | 494 |
| Russian Federation | 120 |
| | |
| Cross-border Cooperation Programs | 277.1 |
| | |
| Governance Facility & Neighborhood Investment Fund | 400 |
| | |
| Total | 5,621.20 |

1.3. A new approach to aid: From TACIS to ENPI

Since independence, EU-Azerbaijan relations have been regulated by the PCA signed in 1996, which entered into force in 1999 and was implemented with the help of a TACIS instrument providing aid to the Government of Azerbaijan. Through this project-based program, Azerbaijan received EU aid to implement a number of projects aimed at the improvement of governance capacity.

Under the 2002-2006 Country Strategy Paper (CSP), TACIS (Technical Assistance to the CIS) has focused on two main priority areas: i) support for institutional, legal and administrative reform and ii) support for the private sector and economic development assistance. Since 2007, ENPI has replaced MEDA and TACIS to channel aid to EU neighbors.

The political basis for the new phase in Azerbaijan-EU relations is the ENP Action Plan, which was endorsed by the two parties in Brussels on November 14, 2006. In addition to the Action Plan, Azerbaijan signed an Energy Memorandum with the EU in 2006, which demonstrated the country's particular importance for the EU as an energy supplier.

The need to develop new funding instruments emerged when the EU decided to extend and deepen its relations with its eastern and southern neighbors, and to include Azerbaijan along with a few other former soviet states in the European Neighborhood Policy in 2004.

1.3.1 Budget support – promoting national ownership and conditionality

Ownership is realized through the budget support instrument. Budget support (BS) is the primary type of financial assistance provided under ENPI. It can be defined as:

“the transfer of financial resources of an external financing agency to the National Treasury of a partner country, following the respect by the latter of agreed conditions for payment. The financial resources thus received are part of the global resources of the partner country, and consequently used in accordance with the public financial management system of the partner country.”⁷

Budget support can be general or sectoral:

- General budget support provides cash for the execution of national development programs or strategic reforms.
- Sectoral budget support provides cash for the execution of programs aimed at the development of specific sectors of the economy.

Budget support is divided into installments or tranches. The first or fixed tranche is transferred by the EC once national authorities have met a certain number of conditions, and the receipt of subsequent or variable tranches is conditional to subsequent conditions.

⁷ *Harmonizing Donor Practice for Effective Aid Delivery*, Vol. 2, OECD/DAC, 2006.

Given its nature, budget support is only used at the national level. For technical assistance, funding is channeled through regional and CBC programs.

The EU has a well-established practice of providing budget support to partner countries, particularly in Africa. While the absolute amount of budget support to Azerbaijan is not enormous, the decision to use this instrument represents a political signal that the EU is willing to support reform processes in Azerbaijan, while at the same time inserting an element of conditionality into its aid by requiring that certain criteria be fulfilled before specific budget support payments are made.

Budget support has a clear advantage over technical assistance in terms of its management on the EC side. It does not require the development of numerous projects and thus has simplified the programming procedure. It is thus more flexible, as it does not require the advance planning of specific projects, and is more focused on results rather than ways and means.

Moreover, it transfers ownership to the partner country, which for the EC contributes to streamlined funding procedures. While important, however, this ownership also has a downside. The lack of control from the EC side over the entire process makes it less transparent, while putting all responsibility for implementation on the partner government weakens the EC's capacity to influence the degree of transparency.

Still, under ENPI, the conditionality principle is exercised in a more efficient and consistent manner than under TACIS. Concerning its financing mechanism, the program states, that "direct budget assistance in support of macroeconomic or sectoral reforms will only be granted where:

- É Public expenditure is sufficiently transparent, accountable and effective.
- É Well-defined macroeconomic and sectoral policies established by the country itself and agreed with by its donors and IFIs are in place.
- É Public procurement is open and transparent.
- É Precise objectives for direct budgetary assistance are defined, including impact benchmarks.⁸

In addition, "the disbursement of such support will be conditional upon the fulfillment of clear and measurable macroeconomic performance and structural adjustment criteria, based on the achievement of the objectives for the support, which have to be monitored according to defined benchmarks."⁹

It is no accident, then, that the implementation of ENPI budget support in Azerbaijan has been slow. The President and various government representatives have stated on different occasions that they were less interested in budget support and more in "know-how," technologies, and so on. This is explained by the fact that, despite the necessary Cabinet of Ministers decree on developing a mechanism for the use of budget support funds⁶ and the technical assistance projects tied to budget support⁷ such a mechanism has not been developed to date, so there is no clarity over how, when and how much funding each beneficiary or line ministry receives. The EC does not monitor spending in this case, but simply assesses the fulfillment of conditions.

⁸ 2007-2010 National Indicative Program.

⁹ Ibid.

The program reflects EC awareness that the Azerbaijan government is extremely centralized at present and that no real power is left to local administrations and that this encourages corruption. The program recommends thorough decentralization.

While the conditionality principle does serve in most countries as a sufficient incentive for reform, in the case of the oil-rich state, the external financial carrot is less enticing than for less endowed states. So, with Azerbaijan, even strict conditionality could be insufficient incentive to ensure diligent ENPI implementation.

1.3.2. Technical Assistance: Supporting Capacity Building

The EC defines technical assistance (TA) as the provision of resources aimed at helping partner countries develop the structures, strategies, human resources and management skills needed to strengthen their economic, social, regulatory and administrative capacity.¹⁰ Much of this funding has gone to EU-based firms hired to provide services in these areas.

Technical assistance is the second modality for funding of ENPI in Azerbaijan. The European Commission gives technical assistance to programs specially funded under the Regional Capacity-building Initiative (RCBI). To support the participation of partner countries in developing the ENPI and CBC programs, the European Commission initiated special technical assistance for 2007-2013.

Major technical assistance instruments include:

- **Individual technical assistance projects** carried out by external contractors hired to contribute to capacity-building in the state apparatus;
- **TAIEX** (Technical Assistance and Information Exchange Instrument) provides centrally-managed short-term technical assistance in the field of approximation, application and enforcement of European Union legislation;¹¹
- **Twinning** aims to contribute to the development of modern and efficient administrations¹² through the long-term secondment of public servants from EU Member States to the public administrations of beneficiary countries.

Twinning is a project-based modality, but it is realized not through consulting companies and open international tender as in the case of TACIS, but as a restricted call for proposal among member states only.

Twinning is 24 months of institute-to-institute or direct cooperation between the member state's administration and that of Azerbaijan. Unlike TACIS, the call for proposal is channeled not through open sources, but via the Twinning Program Administration Officer (PAO) in each country. In Azerbaijan, this position is held by the head of the foreign investment policy and aid coordination department under the Ministry of Economic Development.

- **SIGMA** (Support for Improvement in Governance and Management), a joint EU-OECD initiative mainly funded by the EU, whose role is to assess progress in reforms [and] to

¹⁰ http://ec.europa.eu/enlargement/how-does-it-work/technical-assistance/index_en.htm

¹¹ Ibid.

¹² http://ec.europa.eu/enlargement/how-does-it-work/technical-assistance/twinning_en.htm

assist beneficiary administrations [in establishing] good public sector practice and procedures.¹³

1.4. Innovating through New Tools

The ENPI has also led to two new funding tools: the Governance Facility (GF) and the Neighborhood Investment Facility (NIF), which are designed to foster good governance and sound investment. Their combined allocation for 2007-2013 is €1bn. Because this carrot offers less incentive in an oil-rich state like Azerbaijan, the country has not received any funds through either of these two instruments.

1.4.1. The Governance Facility: Rewarding Good Governance

The Governance Facility is a fund designed to provide additional support to the one or two ENPI countries that have made most progress in implementing the governance priorities agreed in their Action Plans.¹⁴ It is:

intended to provide additional support, on top of the normal country allocations, to acknowledge and support the work of those partner countries that have made most progress in implementing the agreed reform agenda set out in their Action Plan. In line with an assessment of progress made in implementing the (broadly-defined) governance aspects of the Action Plans, this funding [will] be made available to top up national allocations, to support key elements of the reform agenda; this will help reformist governments to strengthen their domestic constituencies for reform.¹⁵

The GF is endowed with €50mn annually, with total funding for the 2007-2013 Financial Perspective expected to reach €300mn.¹⁶ This sum is taken directly from the ENPI budget, as the relevant programming documents are written in a way that makes allowance for additional funding from the Governance Facility.¹⁷ GF funding is directed toward the specific priorities and areas defined in Country Strategy Papers and National Indicative Programs, with specific allocations determined in Annual Action Programs.

Funding decisions are based on progress in five key areas, as assessed in Country Progress Reports on the implementation of each ENPI partner country's Action Plan. These areas are:

1. Democracy
2. Respect of human rights and basic freedoms
3. Rule of law
4. Governance in human security and migration issues
5. Economic, regulatory and social governance

1.4.2. Promoting Investment through The Neighborhood Investment Facility

For the 2007-2013 period, the European Commission has earmarked a total amount of €700 million for the NIF, which are complemented by direct contributions from EU Member States.

¹³ Ibid.

¹⁴ http://ec.europa.eu/world/enp/funding_en.htm

¹⁵ Strengthening the European Neighborhood Policy COM (2006) 726, 04/12/06.

¹⁶ http://ec.europa.eu/world/enp/faq_en.htm

¹⁷ *Principles for the Implementation of a Governance Facility Under ENPI*, p.8.

They have been asked to match this amount, thus allowing the NIF to leverage as much as four to five times this amount of grant funding, in concessional lending for investment products in ENP partner countries, in priority sectors as identified in their ENP Action Plans.¹⁸ The NIF is thus funded by a combination of EC funds and individual Member State contributions, for which a trust managed by the European Investment Bank was established in January 2009. It totaled €37mn in 2008.¹⁹ According to the Facility's 2008 Operational Annual Report, NIF funding leveraged €1.65bn in loans in 2008.²⁰

NIF funding is directed at three priority areas – energy, environment and transport –, which it supports through grants, technical assistance and risk capital operations. It also covers the private sector, namely small and medium-sized enterprises.

Table 2: Investment through Neighborhood Investment Facility²¹

| | | | | |
|---|--|-------------------------------------|----------------------------------|------------------|
| <i>Azerbaijan and Georgia: capacity-building project to support to financial mediation</i> | Total sum: €38,250,000 €2,800,000 to be financed by NIF | Leading Financial Institution: EBRD | Other Financial Institution: EIB | Status: approved |
| This kind of TA to Azerbaijan and Georgian financial institutions serves a dual purpose. The first is to increase efficiency and transparency in the local financial sectors, in order to provide better access to financing for micro, small and medium enterprises. The second aim is to form transparent and mature institutions based on financing the real economy, working on market principles and expanding on strong business experience. This will help form sustainable financial mediation. ²² | | | | |
| <i>Regional: European Neighborhood Small Business Growth Facility (ENBF).</i> | Total Sum: €95mn max From NIF grant: €5mn | KfW | Other Financial Institution | Status: approved |
| This instrument aims to improve better access to financing for micro and small businesses in the eastern neighborhood and to encourage greater labor participation in the private sector. | | | | |
| <i>Regional: Financial Sector Institution-building and Crisis Response.</i> | Total sum: (to be approved) NIF grant: 12 M€ | Managing IF: EBRD | | Status: approved |
| This TA aims to increase access to credit for SMEs, so banks in the European neighborhood and in Russia are being provided with assistance to recover from the financial crisis. | | | | |

1.5. New Priorities: A Strategy for Azerbaijan

As a policy- and country-driven instrument, ENPI provides the basis for coherent and cohesive technical and financial cooperation between Moldova and the EC. In addition, the introduction of the conditionality integral to budget support could well provide an impetus for better governance.

¹⁸ Ibid.

¹⁹ http://ec.europa.eu/europeaid/where/neighborhood/regional-cooperation/irc/investment_en.htm

²⁰ *Neighborhood Investment Facility Operational Annual Report 2008*, p.4.

²¹ Ibid.

http://ec.europa.eu/europeaid/where/neighborhood/regionalcooperation/irc/documents/nif_operational_annual_report_2008_en.pdf

²² http://ec.europa.eu/europeaid/where/neighborhood/regional-cooperation/irc/investment_projects_east_en.htm

1.5.1. The National Program: The Lion's Share of ENPI Funding

The 2007-2013 Country Strategy Paper (CSP) for Azerbaijan identifies six priority areas and several sub-priorities for EU funding, covering all the headings under the EU- Azerbaijan Action Plan:

- Political dialog and reform;
- Economic and social reform, poverty reduction and sustainable development;
- Trade-related issues, market and regulatory reform;
- Cooperation in justice, freedom and security;
- Energy, transport, environment, information society and media;
- People-to-people contacts.

These priorities are further elaborated in the 2007-2010 National Indicative Program (NIP), which discusses long-term impact, specific objectives, expected results, and achievement milestones for each priority. The NIP sets out an indicative budget for national assistance to Azerbaijan. As noted, the total national envelope for 2007-2010 is 19mn, as illustrated in Diagram 1 below.

Each of the priority areas is divided to a number of sub-priorities along with indications of long-term impact, specific objectives, expected results and achievement milestones. For instance, for Priority 1, the NIP stresses the importance of public administration reform as a critical area, which would allow the country's enormous oil revenues to be managed in a more transparent manner and to address the issue of poverty and the development of the non-oil sectors and regions outside of Baku.

The first priority area, "Democratic development and support to good governance," pushes for speedy reforms leading to the building of democratic institutions and good governance that is, developing a responsible, accountable, transparent public sector. Certainly, the relatively small financial resources within the framework of the ENPI will not suffice to resolve fundamental problems in this area. However, the government has acquired considerable financial and technical support, especially from the World Bank, Switzerland's State Secretariat for Economic Affairs (SECO) and other organs to improve this priority area and this effort continues. Thus, in the framework of the ENPI, the implementation of activities in this priority area should be linked with projects funded by other donors.

The second priority area, "Support for socio-economic reforms," includes regulating the market and competition. The fairly broad definition of this priority is typical of Brussels-based aid. However, today Azerbaijan's economy is mainly influenced by Moscow, and the indicated assistance programs are highly important for the country. Implementing this priority, in addition to its political impact, will contribute to the fight against poverty and offer knowledge transfer opportunities and administrative support.

Finally, the third priority area, "Support for legislative and economic reforms in transportation, energy and the environment," is one of the key priority areas from the point of view of its impact on the reform process.

The specific objectives to be pursued in any given year are laid out in the Annual Action Program (AAP), which also determines the related allocations and specifies additional assistance, if any, to be disbursed through the Governance Facility (see Diagram 2).

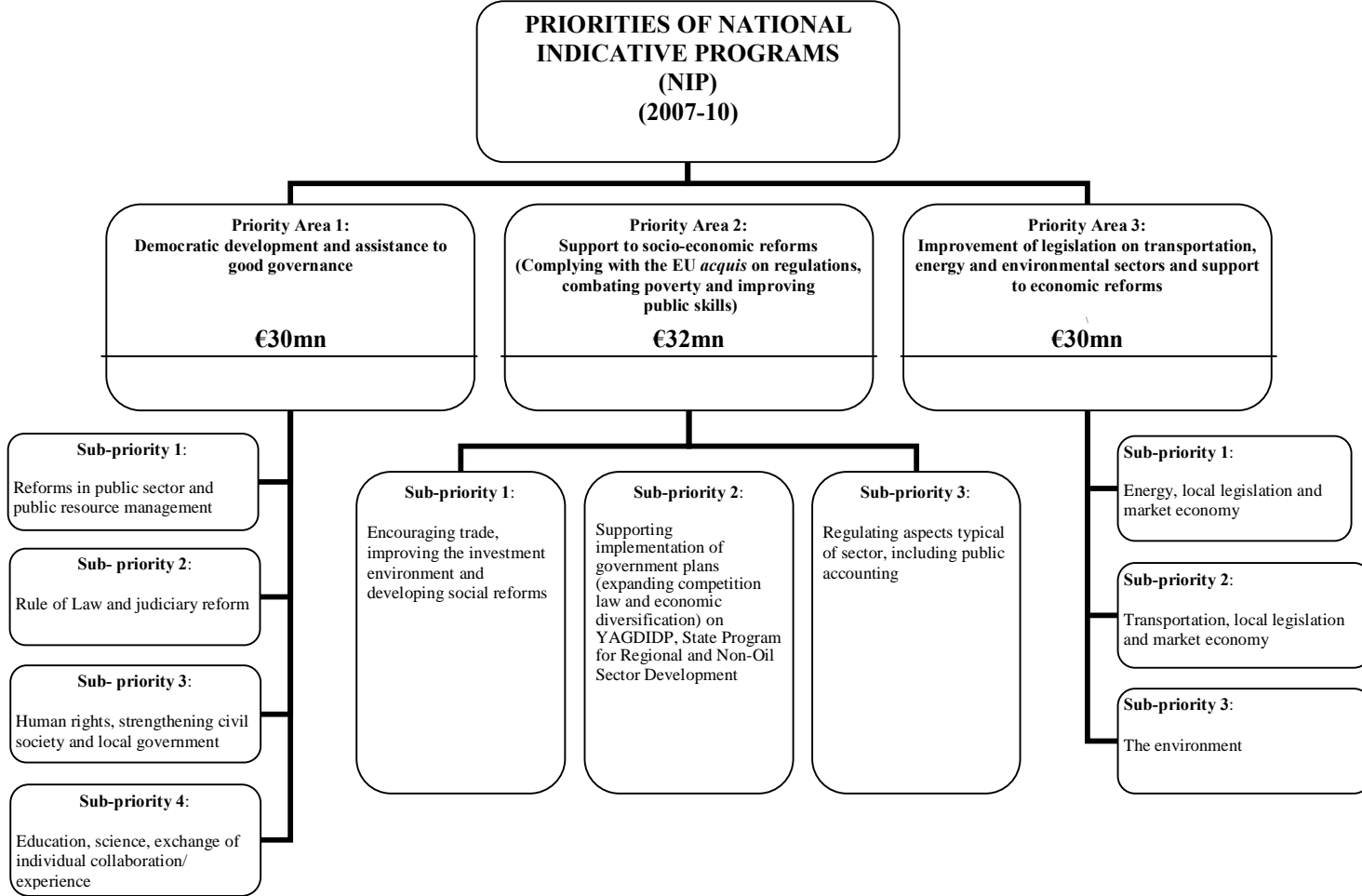


Diagram 1: Priorities of National Indicative Programs

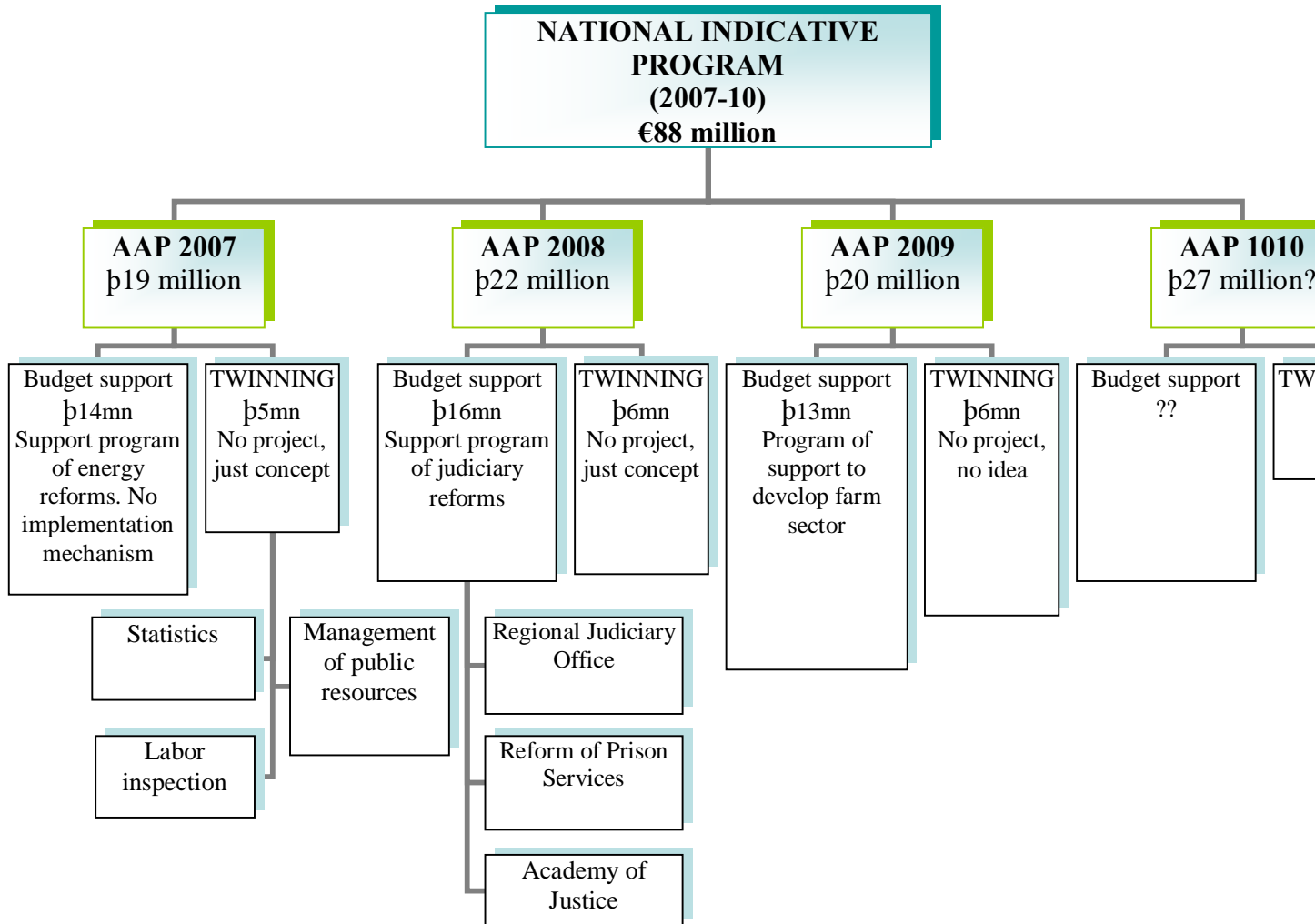


Diagram 2: Implementation of NIP priorities

1.5.2. Regional Programs: Complementing National Strategies

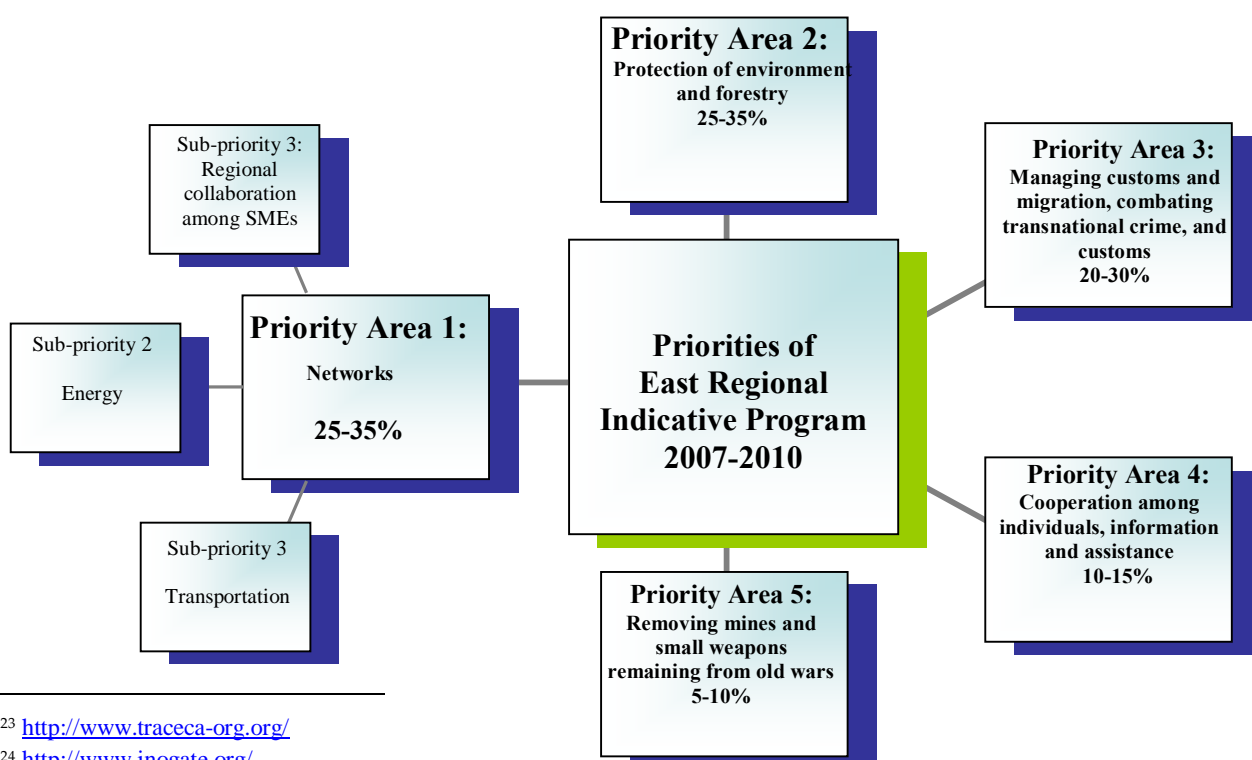
The participation of Azerbaijan at the regional level is reflected in two regional programs: East Regional Programs, which cover eastern neighbors, members and candidate countries, and Cross-Border Cooperation, which covers EU neighbors.

1.5.2.1. Eastern Regional Program

The priority fields of the regional cooperation in 2007-2013 years are reflected in the ENPI Regional Strategic Papers that were approved in March of 2007 by the European Commission. It is expected to provide sum of 223 million in years 2007-2010.

Given the limited number of priorities related to Azerbaijan, the regional component of the ENPI will give another opportunity to contribute to achieving the objectives in the strategy.

At the sector level, it includes **transportation**, following the recommendations of the Higher Level Group, to develop the national transport network, at the Baku Transportation Ministries Conference on November 14, 2004; and the conclusion made by the Baku ad-hoc group at the Baku Transportation Ministries Conference; the TRACECA strategy decided at the TRACECA Transportation Conference in Sophia,²³ in May 2006; **energy**, meaning investment in all regional aspects related to this sector, especially bringing the energy market in line, transit of oil and gas, power, energy-efficiency, energy conservation and renewable alternative energies, and common interests that emerged at the Energy Ministries Conference in Baku on November 13, 2004,²⁴ and the **environment**, in addition to the *inter alia*, the EECCA²⁵ component of the Water Initiative of the EU, regional aspects of forest management and protection, regional cooperation related to regional sea basins and the implementation of multilateral agreements.



²³ <http://www.traceca-org.org/>

²⁴ <http://www.inogate.org/>

²⁵ Eastern Europe, Caucasus and Central Asia.

This includes border and migration management, combating transnational organized crime, a customs union, and asylum-granting activities. This offers opportunities to develop SME and civil-society collaboration at the level of regional programs.

Under the current program, the projects that Azerbaijan is part of include:

Table 3. Eastern Regional Activity Program, 2007²⁶

| TRACECA programs | |
|---|------------|
| Transportation dialog and network communications between EU and neighboring states with Central Asian countries | €7 million |
| Transportation security | €6 million |
| INOGATE projects | |
| Integrating Energy Markets and assisting sustainability in NIS | €6 million |
| Developing technical secretary on support to Baku initiative INOGATE | €3 million |
| FLEG programs | |
| Improving and enacting forestry legislation in ENP East countries and Russia | €6 million |
| ENPI regional information and communications program | €7 million |
| Global money allocation for ENPI East for 2008 | €5 million |
| EU support for integrating border management systems in South Caucasus | €6 million |

Table 4. Eastern Regional Activity Program, 2008²⁷

| Waste management and natural environment information under ENPI | €9 million |
|--|------------|
| ENPI East Global money allocation | €7 million |
| INOGATE projects | |
| Energy economy initiative in construction in Eastern Europe and Central Asia | €5 million |
| Pre-investment project on TransCaspian and Black Sea Gas Corridor | €5 million |

Table 5. Eastern Regional Activity Program, 2009²⁸

| | |
|---|------------|
| Invest-East | €7 million |
| Weather quality management in ENPI East countries | €7 million |
| Program on disease prevention via preparation and pro-active measures | €6 million |
| Cultural Program on Eastern Partnership | €9 million |
| ENPI Eastern Money allocation | €5 million |

1.5.2.2. Interregional Program²⁹

The European Commission has allocated €523.9 million to the IRP for 2007-2010. IRP³⁰ priority areas include:

- Support for reforms;
- Support for higher education;
- Support for interregional dialog;
- Support for investment through NIF;

²⁶

http://ec.europa.eu/europeaid/where/neighborhood/regionalcooperation/enpieast/documents/annual_programs/aap_2007_reg_east_en.pdf

²⁷ http://ec.europa.eu/europeaid/documents/aap/2008/ec_aap-2008_mneighborhood-east1_en.pdf

²⁸ http://ec.europa.eu/europeaid/documents/aap/2009/af_aap_2009_enpi-e.pdf

²⁹ Detailed information is given in the Inter-Regional Program Strategy.

³⁰ http://ec.europa.eu/europeaid/where/neighborhood/regional-cooperation/irc/index_en.htm

The IRP is especially useful for:

- É Small scale works demanding bottom-up, speedy and mobile reaction;
- É Specific activities conducted by international organizations;
- É Determining the needs of a country in advance and new programs for difficult regions on dividing investment.

At the Inter-regional level, Azerbaijan participates in a number of programs.

Inter-regional Activity Program, 2007

- Erasmus Mundus External Cooperation Window 2006 (CFP³¹)³² € 29 million
- TA EX³³ - € 5 million
- S GMA³⁴ - € 5.9 million

Intra-regional Activity Program, 2008

- TAIEX³⁵ - € 7.5 million
- Erasmus Mundus External Cooperation Window 2007 (CFP)³⁶ - € 33 million

Intra-regional Activity Program, 2009

- Erasmus Mundus External Cooperation Window 2008 (CFP)³⁷ € 29 million

Support to Reforms:

In order to meet its aims, the IRP is using two instruments: TAIEX and SIGMA.

Support to higher education

In regional partner countries, the IRP aims to modernize and strengthen higher education institutions by encouraging them to cooperate with EU higher education institutions.

There are two EU programs to meet these aims:

- **TEMPUS** (Trans-European Mobility Scheme for University Students), was formed in 1990 to support reforms in the education system in third-party countries by the EU. The aim was to prepare students for the challenges of a competitive economic life where democracy and civil society play a primary role. At this point, the program has been extended to Central and Eastern Europe, the Western Balkans and the Northern Mediterranean.
- **Erasmus Mundus External Co-operation Window** is a higher education program that aims to develop equal and balanced participation of students, independent from the courses and the social life of women and men. The program is open for undergraduate, master's and doctoral students and offers a chance for faculty from partner countries. The aim is to enhance cooperation of student and faculty by expanding cooperation in

³¹ Call for proposals.

³² http://ec.europa.eu/europeaid/documents/aap/2007/ec_aap-2007_neighborhood-ir1_en.pdf

³³ http://ec.europa.eu/europeaid/documents/aap/2007/ec_aap-2007_neighborhood-ir2_en.pdf

³⁴ http://ec.europa.eu/europeaid/documents/aap/2007/ec_aap-2007_neighborhood-ir3_en.pdf

³⁵ http://ec.europa.eu/europeaid/documents/aap/2008/aap_2008_taiex_en.pdf

³⁶ http://ec.europa.eu/europeaid/documents/aap/2008/aap_2008_parti_emecw_en.pdf

³⁷ http://ec.europa.eu/europeaid/documents/aap/2009/af_aap_2009_enpi-ir.pdf

higher education between the EU and partner countries. Starting in 2009, it was to offer 1,000 scholarships.³⁸

1.5.3. Cross-border Cooperation³⁹ Programmes: Little funding, but Big Opportunities for Border Regions

Cross-border cooperation or CBC is one of the main priorities of the ENPI. It aims to enhance cooperation across the EU's external borders between member and partner countries. A total of 15 CBC programs – 9 land border, 3 sea crossing and 3 sea basin programs – have been established along the eastern and southern external borders of the European Union with a total funding of €1.1 million for 2007-2013. Cross-border cooperation will be also financed by the European Regional Development Fund (ERDF).⁴⁰

CBC has four priorities:

- É Promoting economic and social development in border areas;
- É Addressing common challenges;
- É Ensuring efficient and secure borders;
- É Promoting people-to-people cooperation.

Two types of programs have been established:

- É Land border programs among two or more countries sharing a common border or short sea crossing.
- É Multilateral programs covering a sea basin.

Azerbaijan will be involved in one CBC initiative, the Black Sea Basin Program. At the time of writing, there was still no funding under the framework of that program. The program is intended to spend resources in the form of technical assistance or a grant. In the announced grant competition, there are also opportunities for civil society participation.

Priority areas for the first round of competition are:

- É to support cross border cooperation to the benefit of economic and social development and based on common resources;
- É to share skills and resources for environmental protection;
- É to promote a common cultural environment in the Basin through the support of regional cultural and education initiatives.⁴¹

³⁸ http://eacea.ec.europa.eu/erasmus_mundus/index_en.php

³⁹ Comprehensive information is given in the Strategic Document/Indicative Program of the Cross Border Cooperation.

⁴⁰ http://ec.europa.eu/europeaid/where/neighborhood/regional-cooperation/enpi-cross-border/index_en.htm

⁴¹ www.blacksea-cbc.net.

2. MAKING ENPI COUNT: PLANNING, IMPLEMENTING, MONITORING AND EVALUATING

2.1. Two levels: programme and operational

The use of ENPI funding is a complex sequencing of procedures and phases that work with a large number of national and European actors. ENPI planning and monitoring can be organized into two categories: programming and operational.

At the program level, priorities are defined in three basic documents, which are adopted and prepared by the EC in close cooperation with the national government:

1. Strategy Papers (SPs)
2. Indicative Programs (IPs)
3. Annual Action Programs (AAPs)

As most ENPI funding is directed through the national programs, the main attention is concentrated on national-level programming.

At the operational level, implementation is usually guided by a large range of instruments, phases of implementation and operational handbooks, all tailored to the particular features of specific programs: NIF, Twinning, TAIEX and CBC. Most programs are managed in a centralized manner, which gives the national government extensive management responsibilities, or via project-based approaches, including through international consortia, agencies such as the UN, or consultancies selected by the EC.

Programming is generally conducted in a similar, standardized manner for all ENP countries. Since ENPI is a policy-driven instrument, its assistance priorities are intended to support the priorities and reforms of the beneficiary states, adding financial and technical support to accomplish their objectives.

The substance of the ENPI Strategy for Azerbaijan and its Indicative Program is based on strategic choices and policy options made by the Azeri government. ENPI is implemented by the national government, but is independent of domestic policy cycles.

Table 6. Strategic documents and instruments by ENPI Programs

| | National Program | Regional Programs | | Cross-Border-Cooperation Program (CBC) |
|--|-----------------------------|----------------------------------|-------------------------------------|---|
| | | Interregional Program | Eastern Regional Program | |
| Strategic document (7 years) | Country Strategy Paper | Interregional Strategy Paper | Eastern Regional Strategy Paper | CBC Strategy Paper |
| Medium-term planning document (3-4 years) | National Indicative Program | Interregional Indicative Program | Eastern Regional Indicative Program | CBC Indicative Program |
| Operational document | Annual Action Program | Annual Action Program | Annual Action Program | Joint Operational Program (7 |

| | | | | |
|------------------------------|--|--|-------------------------------|--------------------|
| | | | | years) |
| Financing Agreement | AAP attached to FA | AAP attached to FA | AAP attached to FA | JOP attached to FA |
| Instruments available | Budget Support; technical assistance, incl. TWINNING & TAIEX | Technical assistance projects, granting facilities | Technical assistance projects | Grants |

The planning and provision of ENPI assistance can be divided into three general phases.

1. Strategic policy priorities are identified by the Government of Azerbaijan.

Since ENPI is a policy-driven instrument, its assistance priorities are a function of Azerbaijan's own policy priorities. The content of ENPI Strategy Papers and Indicative Programs ultimately depends on the strategic choices made by the Azeri government.

2. Program-level planning, implementation, monitoring, and evaluation

The EC programming cycle is not attached to the Azeri policy-making schedule. Nevertheless, the measures laid out in CSPs and IPs are designed to support the priorities of the Government of Azerbaijan.

ENPI programming involves regular consultations with the Cabinet of Ministers of Republic of Azerbaijan. The Cabinet monitors the implementation and evaluation of the main documents: Strategy Papers (SPs), Indicative Programs (IPs), and Annual Action Programs (AAPs). CSPs and IPs are drafted and revised by the EC alone.

The SP and IP are drafted and revised by the EC in consultation with the national government. These are translated into operational terms by the AAP, which is also the result of cooperation between the EC and national authorities.

3. Operational-level implementation, monitoring, and evaluation

Implementation is the translation of assistance priorities into concrete measures through specific instruments: budget support, technical assistance, Twinning, and TAIEX. The operational level leaves more room for Azeri input into types of aid and specific target areas, and relies on the Government of Azerbaijan for a significant portion of implementation, monitoring, and evaluation activities.

As the identification of strategic priorities by the Government of Azerbaijan is an internal issue that is not part of ENPI-specific planning processes, this paper will focus on Phases 2 and 3.

2.2. Programming: Focusing on Policy

In the process of programming, in order to determine problems, limitation and opportunities, the situation in national and sectoral levels of cooperation is analyzed. It includes overview of the social-economic indicators and priorities for the EU and partner countries.

The European Consensus on Development clearly mentions that the primary aim of the EU in relations with developing countries is to eliminate poverty. This defines major principles on which EU's relations with the developing world are based:

- É Co-ownership of development strategies with partner countries;

- É Participation of civil society;
- É Gender equality;
- É Attention to the weakness of the state;
- É Comprehensive political dialog.⁴²

The consistency principle is one of the primary elements of the European Consensus. Based on this principle, the EU in policies applied to developing countries should take into consideration the development element of cooperation in matters that influence them. This policy is in support of meeting a target. For example, the EU is supposed to avoid aggressive trade, agriculture and migration policy with developing neighboring countries that receive assistance.

ENPI assistance is based on three programming documents drawn up by the EC. The key EC bodies involved in the preparation of these documents are in Table 7. CSPs and IPs establish the general framework, whereas AAPs are operational documents.

Table 7. Programming Documents and Responsible Bodies

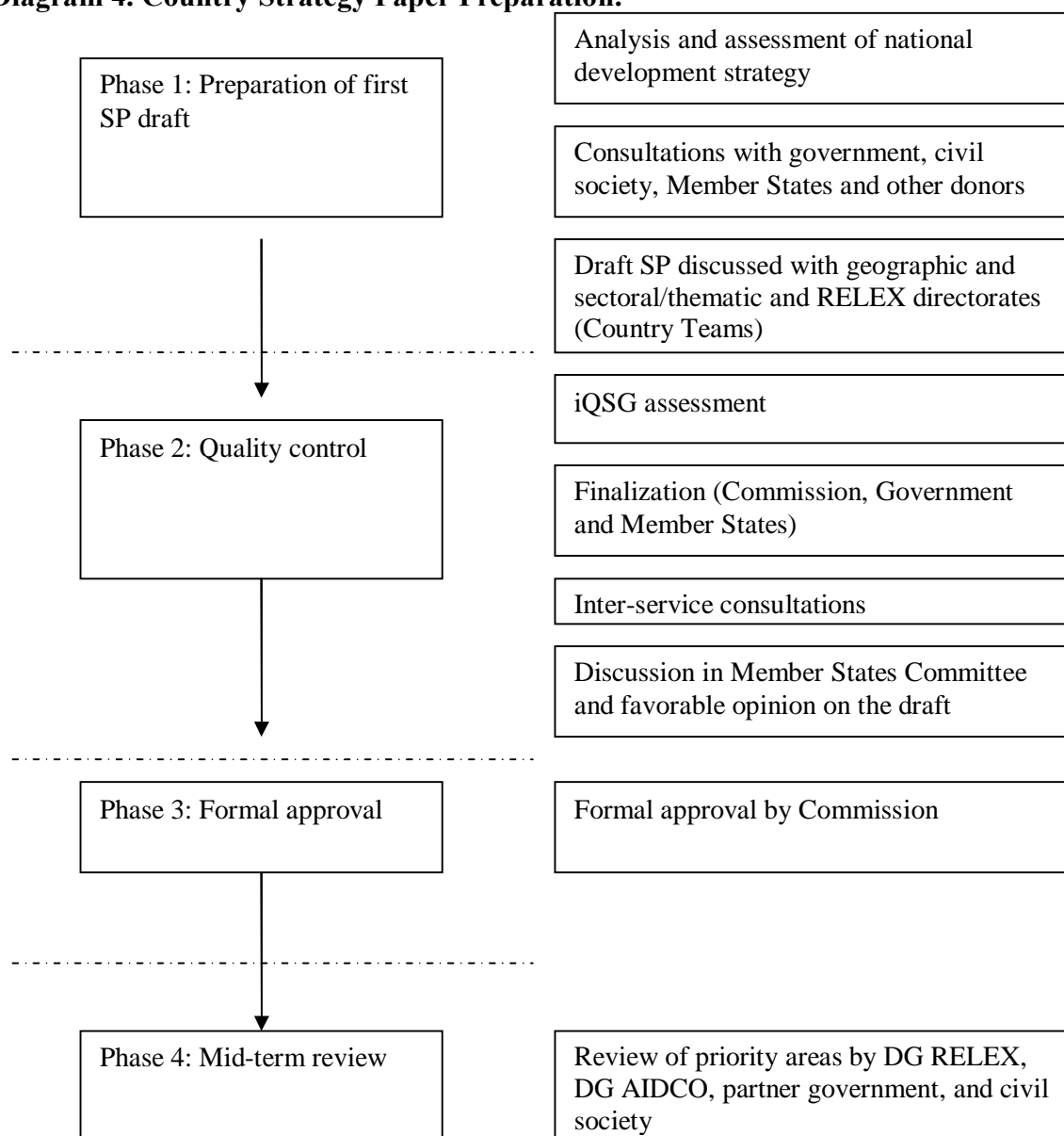
| Programming Document | Responsible EC Body |
|---|--|
| 7- year Country Strategy Paper | DG External Relations (DG RELEX), in consultation with local EC delegation |
| 3- or 4- year Multi-annual Indicative Program | DG External Relations (DG RELEX), in consultation with local EC delegation |
| Annual Action Program | DG EuropeAid (DG AIDCO), in consultation with local EC delegation |

Strategy Paper Preparation

SP preparation can take between a year and a year and a half. This drafting process involves many Commission services, as well as the EC delegation in the partner country and a number of local partners.

⁴² http://ec.europa.eu/development/Policies/Legislation/docs/Consensus_on_Development_November_2005.pdf, p. 8-10.

Diagram 4. Country Strategy Paper Preparation.



1. First Draft

SP preparation is done by DG RELEX in consultation with the national authorities of the partner country. It begins with an analysis and assessment of the partner country's national development strategy. This makes it possible to understand the partner country's needs, as well as opportunities and obstacles to development.

Once this analysis has been performed, DG RELEX holds consultations with the government, non-state actors, Member States and other donors. These consultations are intended to ensure that policy debates on development strategies include all interested stakeholders.

According to the EC Programming Guide for Strategy Papers,

“The role of EC Delegations is to facilitate the conduct of such dialog between NSAs on one hand and between local authorities and government structures on the other, and not to play the proxy for the government. **It is the responsibility of partner countries’ governments to engage in constant dialog with NSAs and LAs**, and it is only in difficult cases, such as lack of political will on the part of

government or lack of local tradition of participation of NSAs and LAs in these processes, that the Delegation should, as a last resort, take the initiative to conduct the consultation, without involving the government.⁴³

After these consultations, the draft SP is discussed with the relevant geographic and sectoral/thematic directorates. It is then prepared by the relevant geographical service or desk and the EC delegation. The national desk officer then consults and coordinates the support of a country team.⁴⁴

2. Quality Control

The Interservice Quality Support Group⁴⁵ (iQSG) is responsible for ensuring the quality of SP documents, as well as their internal and external coherence. Once iQSG has revised and approved the draft SP, it is sent back to the relevant EC delegation, which discusses the changes that were made with the partner government. It then goes through Inter-Service Consultations (ISC).⁴⁶ Once the necessary changes (if any) have been made, the draft SP is submitted to Member States via the ENPI Management Committee. Only after the SP draft has received a favorable opinion from the committee can it be submitted to the Commission for formal approval. If substantial modifications are needed, the draft is sent back to the responsible geographical service.

3. Formal Approval

The formal approval procedure is over when an SP is signed and when an "Order for Service" is addressed to the Director-General of AIDCO in order to launch the implementation of the strategy.

Country Strategy Paper for Azerbaijan (2007-2013) is the principal reference framework for ENPI and sets out the priority areas for action. EC assistance over the period covered by this strategy will therefore aim at supporting Azerbaijan's reform agenda on the basis of the policy objectives defined in the Partnership and Cooperation Agreement (PCA) entered into force in June 1999 and the EU-Azerbaijan ENP Action Plan of 14 November 2006.

Indicative Program Preparation

The Indicative Program refines the priorities set out in Strategy Papers and sets out an indicative budget for a three- or four-year period. With its detailed information on areas for cooperation, priorities and project goals, it serves as the framework within which Annual Action Programs are prepared.

Taking into account the specifics of how the national government machine works in Azerbaijan, the objective of ensuring the short- and/or long-term impact of EU aid contributions on the reform process needs to be reached through building in efficient mechanisms for transparency and monitoring.

⁴³ http://ec.europa.eu/development/icenter/repository/iqsg_consultation_NSAs_en.pdf. Emphasis added.

⁴⁴ A "country team" is a network offering the whole range of Commission services that are involved in cooperating with the country concerned. Source: www.ec.europa.eu/development/how/iqsg

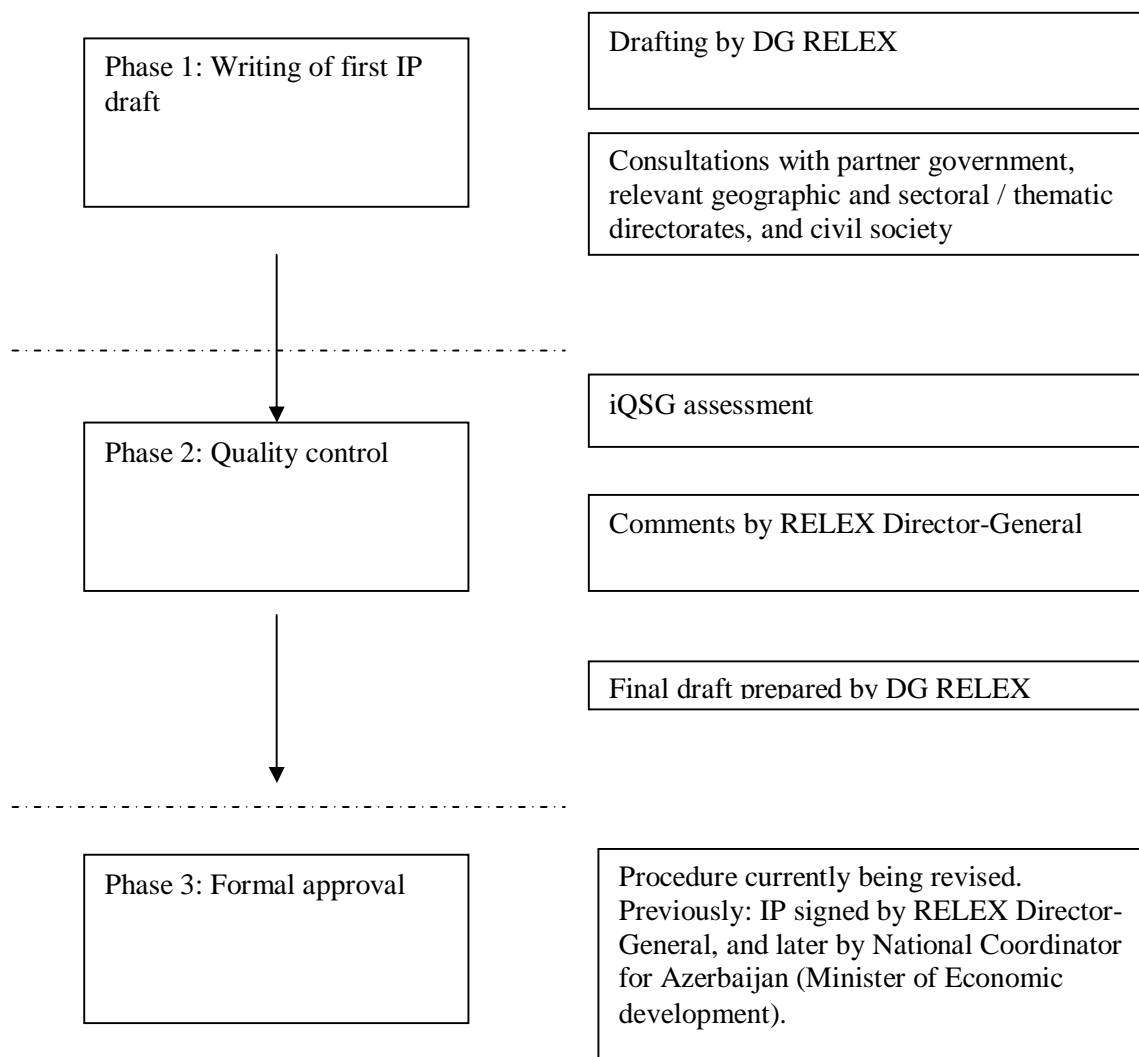
⁴⁵ iQSGs are to ensure the coherence and quality of EC external cooperation aid. The formal decision to establish such a group, its membership and mandate was taken on 20 September 2000 by the Group of RELEX Commissioners.

⁴⁶ The ISC is restricted to AIDCO, ECHO, DEV, RELEX, TRADE, Legal Service, SG, and DG Translation. Other DGs (e.g. AGRI, ENV, FISH, SANCO, JAI) can be consulted when appropriate. As a rule of thumb, the same services that are involved in the country team should be included in the ISC.

http://ec.europa.eu/development/how/iqsg/programming_mainsteps_drafting_en.cfm

In other words, the main question is “Will the money spent on a specific project end up achieving progress in the priority areas, e.g. more transparent elections, better investment climate, or convergence of the legislation with the administrative practices?” There is the problem of how to sacrifice the effect of “greater efficiency” achieved by implementing specific projects to further revert to autocracy and the monopolization of power, rather than promote decentralization and political pluralism.

Diagram 5. National Indicative Program Preparation.



1. First Draft

The draft IP is prepared by DG RELEX in consultation with the partner country’s government and the relevant geographic and sectoral / thematic directorates.

2. Quality Control

The IP draft is submitted to iQSG for quality assessment. As with the draft SP, iQSG assesses the overall quality of the document, as well as its internal coherence and its coherence with other documents. The draft is then commented upon by the Director-General of DG RELEX. The final draft is prepared by DG RELEX and presented to the ENPI Management Committee.

3. Formal approval

The procedure for formal approval is currently being revised. According to the previous procedure, the IP was signed by the Director-General of DG RELEX and the National Coordinator for Azerbaijan, who is the Minister of Economic Development.

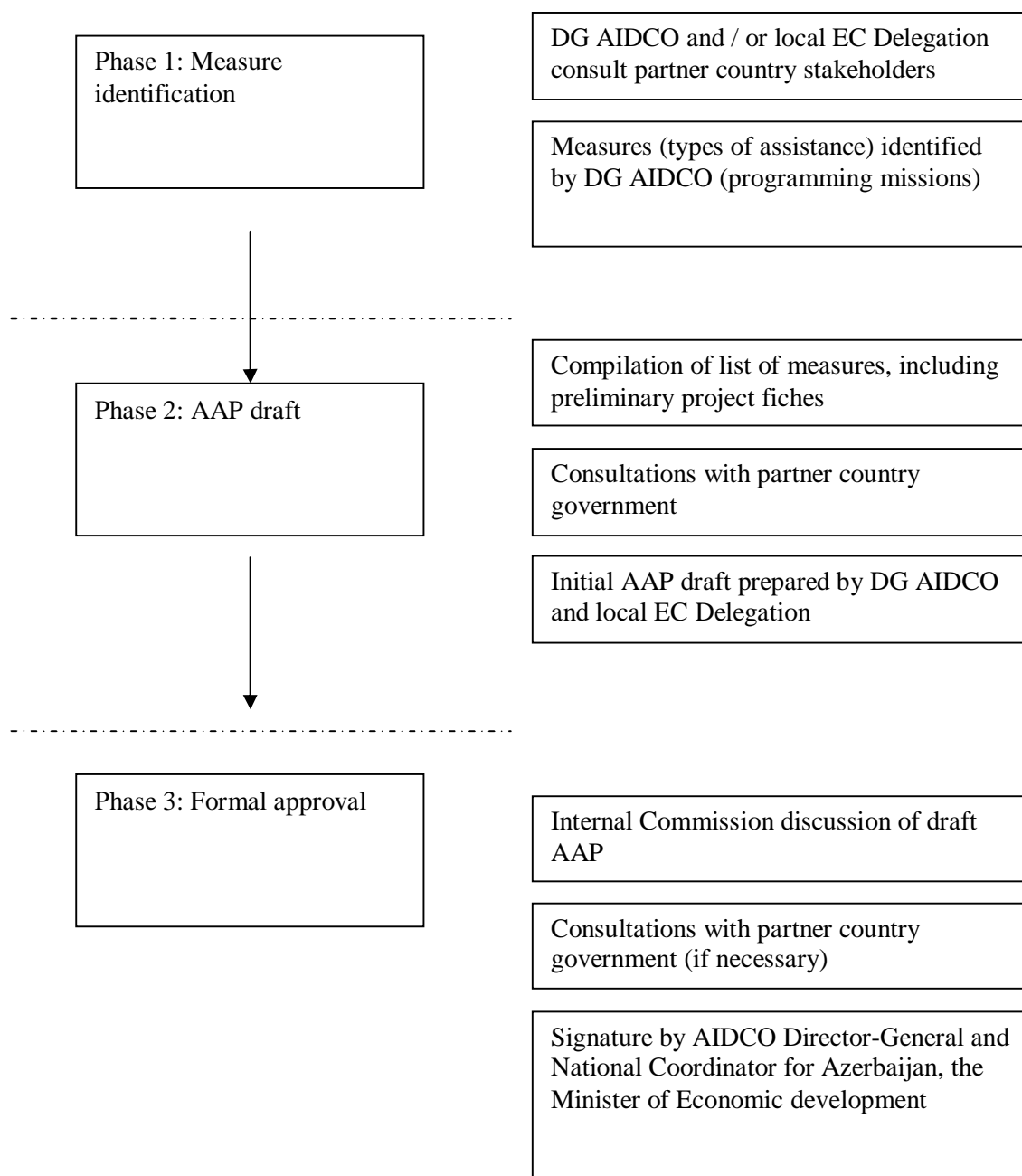
Annual Action Program Preparation

Each year, the Annual Action Programs specifies details for funded program projects or activities in the country or the region. "Annual" means fiscal year, not the implementation cycle of any activity. These activities can last a number of calendar years after the fiscal timeframe starts.

AAP preparation is sometimes called the "identification phase." It connects the overall strategy contained in the CSP and IP to the specific measures and initiatives needed for its implementation. Action Programs define specific sectors and projects to be supported, as well as the expected results, management procedures, and budget. They also detail operations and set out an implementation timetable.

The life-cycle of the Action Program from the preparation of identification fiches to the implementation deadline can take between two and six years. In Azerbaijan, it is taking around four years on average. In other words, it takes a long time for the projects to go through the identification and implementation phases. Moreover, TACIS programs are still operating despite the launch of the ENPI.

Diagram 6. Annual Action Program Preparation.



1. Measure (types of assistance) identification

Measure identification is mainly done through programming missions during which EC representatives (DG AIDCO and/or the local EC delegation) consult with stakeholders in the partner country in order to define the specific measures to be taken to implement the Strategy Paper and Indicative Program. Country stakeholders include the government, other donors, potential beneficiaries, and others.

2. AAP drafting

Once the measures have been identified, they are compiled into a list that, where possible, also includes preliminary project fiches. Based on this list, the EC determines priority measures, in consultation with the partner country's government (if necessary). EuropeAid and the local EC Delegation then draft the AAP, consulting with the government as necessary.

3. AAP approval

The draft AAP is discussed internally by the Commission, which also engages with the partner government. When consensus is reached, the AAP is signed by the National Coordinator in Azerbaijan and the Director-General of DG AIDCO.

Program-level Monitoring and Evaluation: An Incomplete System

There is no ENPI-specific program-level monitoring and evaluation system. ENPI is only monitored and evaluated through the mid-term review process described here. In-depth monitoring and evaluation of ENPI funding only occurs at the project level, which is described further on in the text. This section was prepared on the basis of various official documents and consultations with EC officials.

Mid-term CSP Review

Country Strategy Papers are reviewed by the EC at the three- or four-year mark, as part of the drafting process for the new National Indicative Program. The exercise is designed to identify:

- a. Areas that have not been adequately covered by European Community or other donor assistance but which represent key priority areas in need of financial assistance;
- b. Areas for which follow-up assistance is required for previous programs;
- c. Areas that have been covered in the past, and for which assistance is no longer a priority.⁴⁷

The mid-term review exercise, which takes approximately one year, is carried out by DG RELEX, with the participation of DG AIDCO, the appropriate EC Delegation, government of the partner country, and interested non-state actors, who are invited to submit comments and recommendations and participate in roundtable discussions.

However, the research team uncovered no evidence of a mid-term review in Azerbaijan.

NSA Involvement: A Long Way to Go

The Commission has made a laudable effort to consult NSAs during the ENPI planning process but the number of formal and accessible entry points remains limited. NSAs can participate in the CSP mid-term review and the AAP preparation process, but participation in the initial CSP elaboration process is optional and depends on the Azeri authorities, who have limited experience and have exhibited little interest in soliciting input from non-state actors. Indeed, while developments in recent years have seen the Government of the Republic of Azerbaijan slowly open the policy-making process to NSAs, the absence of clear and mandatory procedures for involving NSAs in aid management has made it easy to overlook these commitments. Despite the fact that both the Commission and the Government have recognized the need for NSA input in ENPI planning and monitoring, only the Commission has taken concrete steps to seek it.

2.3. Operational level: Translating Policy into Actions

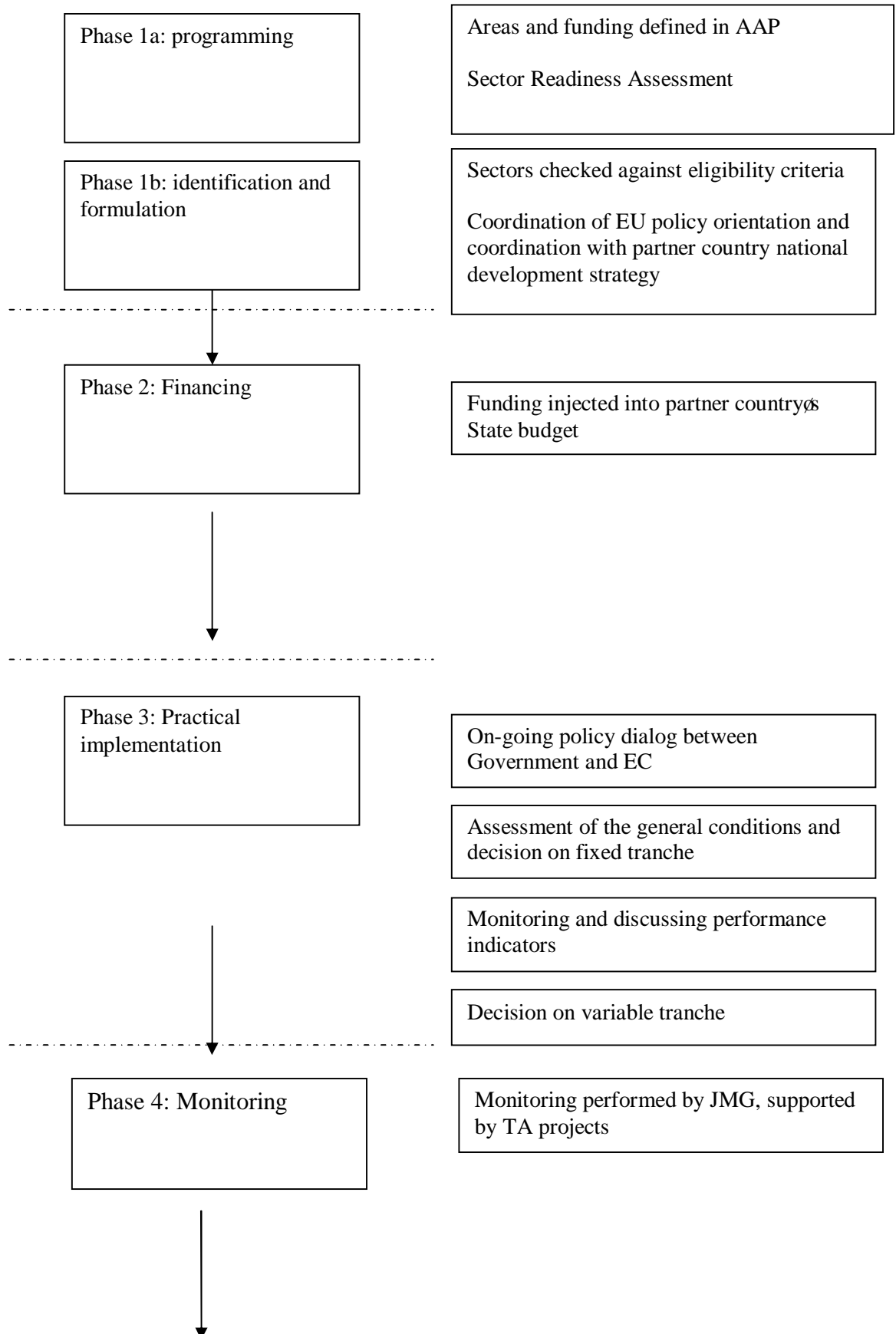
As mentioned earlier, each operational instrument has its own planning, implementation, and monitoring processes. This section describes the processes associated with two main instruments: budget support and individual technical assistance projects.

⁴⁷ EC Concept Note on "Potential Priority Areas for ENPI National Indicative Program (NIP) for Ukraine 2011-2013," p. 1.

Budget support

Broadly speaking, budget support (BS) follows a 5-stage process.

Diagram 7. Budget Support Cycle



Phase 5: Evaluation and audit

Joint Monitoring Group is responsible for the Semi-Annual Progress Report and for the mid-term review

1. Programming

Sectors are identified as the result of negotiations between the EC and the government of Azerbaijan. Priority areas and specific allocations for BS assistance are laid out in the ENPI programming documents – CSPs, NIPs, and AAPs – and are based on:

- the Commission's overall country strategy;
- the current agenda of EU-Azerbaijan relations;
- the results of the Commission's past cooperation with the Government;
- a Sector Readiness Assessment (SRA);⁴⁸
- the political situation.

Budget support procedures are laid out in a set of guidelines published by DG AIDCO and DG RELEX. According to these guidelines, during the identification and formulation process, attention is paid to:

- eligibility criteria (national policy and strategy, macroeconomic framework, public financial management);
- wider analysis of the context (the budget, donor coordination, performance measurement, capacity development);
- the policy orientations of the EU;
- lessons learnt from previous experience;
- other planned interventions.⁴⁹

The programming process also includes the formulation of performance indicators used to determine whether the partner country has respected the minimum criteria for the various tranches of budget support funding to be disbursed. These are determined jointly by DG AIDCO, supported by external experts, and government bodies of Azerbaijan.

2. Funding

The money is transferred from the EC to the national budget of Azerbaijan. Funding is broken down into tranches, with the initial tranche transferred after signing the Financing Agreement, and subsequent ones conditional on adherence to predefined performance indicators on the part of the beneficiary government, as assessed by the Joint Monitoring Group.

⁴⁸ As noted in Section 1.1.1, the seven areas assessed in the SRA are: (i) National development or reform policy and strategy; (ii) Macroeconomic context; (iii) Budget and Medium-Term Expenditure Framework (MTEF); (iv) Public Financial Management; (v) Donor Coordination; (vi) Performance Measurement; (vii) Institutional assessment and capacity development.

⁴⁹ While identification and formulation are not *per se* part of the programming phase, the Guidelines on the Programming, Design & Management of General Budget Support state that "the identification and formulation stages should be seen as part of a continuous process of program preparation addressing similar issues. The distinction between identification and formulation is to some extent an administrative one, based on the presentation of an Identification Fiche at the end of identification, and the presentation of a Funding Proposal or Annual Action Program/Action Fiche, at the end of formulation." Source: DG AIDCO & DG Relex, "Guidelines on the Programming, Design & Management of General Budget Support," January 2007, p. 40.

3. Practical Implementation

Once it becomes part of the beneficiary country's own budget, budget support is used according to the financial management procedures of the relevant authorities, usually a Ministry.

According to the Guidelines on the Programming, Design & Management of General Budget Support, implementation concerns two main areas: (i) 'pursuing dialog on key areas, such as national policy and strategy, the macroeconomic framework, and public financial management' and (ii) 'reporting to EC headquarters on these issues.'⁵⁰ This phase usually involves four elements:

- É Ongoing policy dialog between the Government and the EC, with the possible involvement of other development partners;
- É An assessment of general conditions and a decision on the fixed tranche;
- É Monitoring and discussion of performance indicators;
- É A decision on the variable tranche, that is, BS funding whose transfer is conditional on the partner country's adherence to conditions set out in the BS Funding Agreement.

4. Monitoring

As its name indicates, budget support goes directly to the state budget. Thus, the role of the state in this area is to attract the resource of the donor to its budget and the role of the beneficiary institution, say the Ministry of Industry and Energy, is to spend the granted resource to implement the project in the State budget by planning the work.

In Azerbaijan, to make budget support programs effective in terms of transparency and accountability; they should either meet international standards or at least be preceded by key reforms in this area. Otherwise, the grant resources transferred to the budget will keep 'disappearing' into general revenues and not serve the purpose of support for specific projects.

Certainly, since the EU applies this mode of payment to all partner countries, these problems exist in the other states as well. However, depending on the national budget system (Georgia and Ukraine), this problem is less profound. As a result, this issue has country-specific aspects and blaming the EU would not be fair. Also, the preference given by the EU to the budget support mode of payment in its work with partner countries, according to Eurocrats, is based on the promises of 'state governments, including the government of Azerbaijan, that they will undertake speedy reform of their budget system.' In practice, however, in some partner states, reforms move at a snail's pace, which undermines the effectiveness of these EU projects.

In addition, budget support has obvious political implications. Through this mode of payment, an additional incentive to undertake public sector reforms is created. The long-term effect of this modality is the promotion of financial sector reforms. Thus, tough implementation of EU budget support projects so far, in the nearest future and in the country-wide perspective is seen as positive.

5. Evaluation and audit

While the EC does not identify a body specifically responsible for evaluation, the Joint Monitoring Group is to carry out some evaluation functions.

⁵⁰ DG AIDCO & DG Relex, Guidelines on the Programming, Design & Management of General Budget Support, January 2007, p. 70.

Semi-Annual Progress Report

This short report summarizes the main findings on BS implementation and includes analysis and comments on progress, constraints and gaps based on BS milestones. It also analyzes progress toward reaching a predefined set of benchmarks.

Mid-Term Review

This will also be undertaken by the JMG, supported by the EU TA/Support Project. It forms the basis for progress assessment and determines the size of the variable tranche to be released, as well as mapping out current and planned actions. The mid-term review is a critical document.

BS audit

An audit of national accounts is to be carried out by the Accounting Chamber or equivalent of the partner country. The EC does not carry out financial audits of untargeted budget support. Once disbursed to the National Treasury, these funds are fungible and it is no longer possible to trace their use specifically as EC funds.

Technical assistance projects

Individual TA projects to be funded are identified in AAPs and implemented by private consulting firms. Individual project Terms of Reference (ToRs) are prepared either by EC staff or by external consultants, with participation from the representatives of the Government of Azerbaijan when necessary.

The EU technical assistance programming process follows a Project Cycle Management model. The National Coordinating Unit in Azerbaijan is especially involved in the first two phases of the project cycle:

- (i) strategy definition / annual programming;
- (ii) project identification.

The later phases of the project cycle (financing, implementation, monitoring and evaluation) are essentially managed directly by the EC, with the administrative participation of Azeri authorities, with the exception of evaluation, which is performed without government participation.

National Coordinating Unit for EU Technical Assistance in Azerbaijan (NCU) was established by Cabinet Decree 576 dated 22 October 1992, and its Charter was approved by Cabinet Decree 461 dated 27 August 1993. The ongoing activities of the NCU are regulated by an updated Charter approved by Cabinet Decree 46 dated 8 April 2003.

The NCU has the status of a legal entity and is funded by the State budget. The activities of the NCU are governed by the Constitution of Azerbaijan, Presidential Decrees, Cabinet Decrees, resolutions by the National Coordinator of EU Technical Assistance Programs in Azerbaijan, which is the Minister of Economic Development, agreements and arrangements between Azerbaijan and the European Commission, international agreements, and the NCU Charter.

As the executive body of the National Coordinator of the EU Technical Assistance Program in Azerbaijan, the NCU operates under the guidance of the National Coordinator, while day-to-day activities are managed by its Executive Director.

The National Coordinator

The National Coordinator is the main counterpart of the EC in the partner country and is appointed by Presidential Decree.

A Presidential Decree dated 31 October 2005 appointed Heydar Babayev, Minister of Economic development, and National Coordinator of EU Technical Assistance Programs in Azerbaijan.

Legal framework

The rules on signing and approving contracts for technical assistance and grants were set by Presidential Decree on 17 April 2006. Based on these rules, such are submitted to the Cabinet of Ministers of the Republic of Azerbaijan. The Cabinet reviews proposals within 30 days. During that period, the Ministry of Economic Development and Finance carries out a feasibility study while the Ministry of Justice does a legal audit.

If the Cabinet of Ministers considers the technical assistance or grant relevant, it gives permission for the chair of the executive committee to open negotiations with the relevant donor. Projects must comply with the Constitution of Azerbaijan and not violate the country's laws and other legal acts. After an agreement is reached between the parties, the final text is submitted to the Cabinet of Ministers again.

Power to sign such agreements has been delegated to the chair of the executive committee by the Cabinet. The agreement is then returned to the Cabinet of Ministers by the signatory and goes through a final approval procedure in the Cabinet within a 30-day period. If the agreement is based on rules that are different from established Azeri law, the Cabinet sends the agreement to the President of Azerbaijan. The agreement can then be approved in the Parliament (Milli Majlis) upon submission by the President.⁵¹

Box 1. How the Government of Azerbaijan works with technical assistance projects

The work of the government in the context of technical assistance projects with other organizations is a useful example of how the implementation of the projects in the country takes place in practice.

Setting priorities: At this stage, a donor organization selects the most important areas to be funded, determines the need for financial support, and holds consultations with the beneficiary government. A high level of expertise must be the basis for selecting priorities. Cooperation with the government is required for a more precise determination of priorities. In some areas, the government proposes priority areas to donor organizations. In this case, the decision is based on consensus between the government and the donor organization.

Approving a strategy for the selected priorities: This is very difficult, exhausting process, requiring multilateral consensus. The exchange of opinion between area ministries and the main state bodies—Cabinet of Ministers, Ministry of Finance, the Ministry of Economic Development—, usually lasts years and in the end often brings no result. Here, one of the key

⁵¹ <http://economy.gov.az/Catalogs/files/file1244193679064.htm#>

roles belongs to the Ministry of Finance. Much depends also on the sector of the project. Most of the time, the political support or status of the certain ministry matters a lot. However, it does not mean that the position of public sector agencies, especially the Cabinet of Ministers, is weak. The procedure usually requires constant routine work, where the donor appears to be the party to complete the work.

Funding projects is also a tough process usually. The funds are transferred to a special account opened for this purpose. The first tranche constitutes 10% of the overall sum and the required minimum amount is always in the account to be used for mandatory spending in order not to interrupt work. The rest of the money is usually spent as an honorarium for the foreign expert or to buy goods and services. Despite this, the government carries responsibility, which includes complicated accounting procedural rules. This is one of the major reasons behind the hesitation of the government to get involved in grants.

Monitoring

Technical assistance monitoring is generally carried out by external experts hired by the EC Delegation. In this instance, monitoring can be defined as the systematic, continuous collection, analysis and use of information for the purpose of managing and decision-making in order to:

- ensure that projects remain on course to reach their goals, with any adjustments being made with minimal disruption;
- support regular reporting mechanisms;
- ensure early feedback from project implementation to subsequent project design.⁵²

On the EC side, there are two types of monitoring: internal and external.

Internal monitoring

Internal monitoring is an integral part of day-to-day project management. The contractor monitors and reports on four basic points on a regular basis:

- Which activities are underway and what progress has been made?
- At what rate are the means being used and costs incurred in relation to the progress of implementation?
- To what extent are the results furthering the project purpose?
- What changes have occurred in the project environment? Do the assumptions still hold true?

Internal monitoring can be either traditional (financial monitoring performed by DG AIDCO), or operational (monitoring the operational success of projects).

Internal monitoring provides information through which implementation problems can be identified and solved and progress assessed. It allows the project management contractor and Commission Project Manager to verify whether results and purpose are being met and to analyze changes in the project environment including key stakeholders, local strategies and policies. If progress falls short, corrective action has to be taken.

External monitoring

External monitoring is a monitoring system organized by the services of the European

⁵² EuropeAid Cooperation Office, *Handbook for Results-Oriented Monitoring of EC External Assistance*, April 2008, p. 12.

Commission through which external monitors are contracted in order to provide independent follow-up on project progress. While external monitoring used to be conducted mainly through in-person visits, since 2002-2003 the emphasis has been on results-oriented monitoring. Monitors examine project implementation, make field visits to project sites, and interview relevant stakeholders. They also prepare progress reports and possible recommendations for improvement. In principle, similar questions are asked as for internal monitoring, but instead of operations, activity and implementation issues, they focus on results and the achievement of project objectives. This means that questions on relevance, impact and sustainability are also raised.

External monitoring has a project advisory role and is aimed at improving the implementation of projects in order to achieve the project purpose in time, effectively and efficiently. Monitoring is not an inspection, but a careful analysis of the whole project process, resulting in conclusions and recommendations.

5. Evaluation

In most cases, the evaluation is conducted *post factum* and its main objective is to provide recommendations for future activities. It is handled by external consultants who are contracted with DG EuropeAid. There are both geographic and thematic coordinators.

Significantly, despite the EC's relatively extensive monitoring and evaluation system, TA projects are assessed, not by their impact, but on their fulfillment of predetermined management criteria, such as deadlines, budgets, and so on.

Box 2. Monitoring Criteria for EC Projects

Monitors look at four elements:

a) *Relevance and Quality of Design*

The appropriateness of the project purpose to the problems it was supposed to address and to the physical and policy environment within which it operates.

b) *Efficiency*

The cost, speed and management efficiency with which inputs and activities were converted into results and the quality of the results reached.

c) *Effectiveness*

An assessment of the contribution of the results to the achievement of the project purpose and how assumptions affected the project achievements.

d) *Impact to date*

The effect of the project on its wider environment and its contribution to the wider objective, as summarized in the project's overall objectives.

e) *Sustainability*

The likelihood of a continuation of the stream of benefits produced by the project. Sustainability begins with project design and continues throughout implementation

The EC selects an independent evaluating agency, which conducts consultations with Government of the Republic of Azerbaijan representatives, implementing ministries, other donors, and civil society representatives. ENPI is also subject to an evaluation by ROM, the Results Oriented Monitoring of EC External Assistance.⁵³ ROM activities are executed through a Framework contract fully managed by the relevant Directorate of EuropeAid and DG Enlargement.

⁵³ http://ec.europa.eu/europeaid/how/ensuring-quality/rom/documents/handbook_rom_system_final_en.pdf

Nevertheless, there is little available information about the monitoring efforts, while civil society is generally not involved in consultations over the implementation of the ENPI Annual Action Program. Thus, the most interesting activities are not available for the main actors, civil society experts and activists to scrutinize.

3. NSA INVOLVMENT IN ENPI: A LONG ROAD AHEAD

3.1. Public Sector Management in Azerbaijan

3.1.1 The government decision-making mechanism

The effectiveness and success of the ENPI depends not only on the nature of the instrument itself, but also on the specific features of the decision-making process in the partner country and how much the implementation of the new instrument takes into account these specifics. Our analysis demonstrates the need for transparency and accountability in interactions between Brussels and Baku in terms of greater NGO participation in ENPI implementation.

The role of the Cabinet

According to practice in Azerbaijan, the Cabinet of Ministers is the ultimate executive body to finalize a decision. The person in charge of managing grant projects is the First Deputy Prime Minister. Projects are signed either by the Prime Minister or, in some cases, by the President. The Prime Minister is responsible for endorsing political agreements made by the Presidential Administration, with the Cabinet of Minister playing a coordinating role.

Ministry of Finance: The usual legal partner on behalf of the Government

The Ministry of Finance is an agency with special status, bearing a high degree of responsibility as the Government's financial arm. Because of that, decision-making in this Ministry is a highly sensitive matter. Unlike line ministries, it has to take more discrete approach to decision-making.

Getting feedback

The Cabinet of Minister's letter of coordination to all related government agencies is an important point in the process and the Prime Minister plays a key role here. Letters addressed to Ministries and other organizations with the PM's signature require a mandatory response. Thus, all ministries have to communicate their opinion and recommendations to the Cabinet of Ministers within a designated timeframe.

Institutional obstacles to the EU aid program

Starting with the TACIS program, the EU selected the Ministry of Economic Development as its major partner. Unfortunately, this has been undermining the effectiveness of related projects. Even with its special status, the Ministry of Economic Development still has to get permissions from other agencies under the Cabinet of Ministers, which significantly hampers the execution of projects.

Thus, implementing political decisions through the public sector mechanism does not work. International standards have not been integrated into public sector management. Universal principles are not applied and, as a consequence, the bureaucracy, rather than doing its job, tries to "feel" the mood of its bosses. In practice, this strains relationships among state agencies, leading to turf wars, distrust and counterproductiveness.

Despite the value of the objectives set out in ENPI, the government has been slower than expected, given less importance to critical issues, and not made a serious attempt to propose projects. This passivity, reflecting the lack of effective incentives, appears to be the result of five factors:

1. Although, the government generally acts interested in cooperating with the EU, it is reluctant to take specific steps in this direction.

2. The main difference between Azerbaijan and other ENPI countries is that EU financial aid dedicated to the country is significantly lower than the state's own resources. For example, in 2008 oil and gas revenues were more than US \$18bn. Overall for that year, they constituted more than 50% of the state budget's entire revenues.
3. Even when resources are received for non-sensitive purposes, they are seen as an extra responsibility and burden on the Government. The current situation suggests that Baku is interested in postponing these issues until the later stages.
4. There are certain loopholes in the ENPI itself, as can be seen by the large number of unrealized projects across the South Caucasus.
5. Civil society is given no role in the process of developing the NIP, although Azerbaijan's civil society has demonstrated its professionalism and experience in development and implementation of ENP-related objectives.

All this leads to three conclusions:

- i) Social and economic policy performance is weak and does not sufficiently reflect the real situation in this sector;
- ii) In for government policy to be harmonized, there is a great need for coordination among state agencies;
- iii) The Government does not have an unequivocal position on integration in Europe

3.1. Opportunities for participation

3.1.1. Civil Society in Azerbaijan

Despite of all the many obstacles over 18 years of independence, Azeri civil society has established a strong presence. The general political context for civil society to function is typified by:

- A situation with democracy, human rights and freedom of speech that is worse than in other countries in the Eastern Partnership and trends in recent years that are negative.
- With its abundance of oil resources compared to other partner states, official Azerbaijan being reluctant to see civil society funded from external sources. The Government thinks that neither financially, nor impact-wise is support for this sector important and, in some cases, perceives it as potentially threatening.
- Foreign donor organizations sometimes mistakenly believe that civil society in Azerbaijan does not need external aid, compared to resource-poor Georgia.
- Compared to other states, oil revenues provide the Government with greater opportunities to suppress the civic development. This justifies civil society's growing demand for external aid in Azerbaijan.

Azerbaijan's civil society has proved itself effective and influential in different areas, such as the economy, politics, social and environmental issues. Several of these groups have earned their reputations as objective, professional NGOs: Extractive Initiative for Transparency, the National Budget Group, the Azerbaijan National Committee for European Integration, and others.

3.1.2. CSO Monitoring of EU-Azerbaijan Relations

There were a few attempts of Azerbaijan civil society to mobilize support for the European integration process, but funding these initiatives became available only after the European Neighborhood Policy was signed.

Thus, in 2006, the OSI in Azerbaijan supported setting up the Azerbaijan National Committee for European Integration (ANCEI), an NGO to promote speedy integration into the EU and monitor the implementation of EU-Azerbaijan agreements. ANCEI was soon contacted by the local office of Europa House,⁵⁴ which invited them to participate in the discussions over the negotiated draft of the ENP Action Plan. ANCEI sent a letter to the Ministry of Foreign Affairs with the request to share the draft for comments and review, but was turned down.⁵⁵ However, ANCEI was given a copy of the draft by Europa House in Azerbaijan upon request and prepared comments and recommendations for the Government of Azerbaijan. For this purpose, nine commissions of experts sat to comment on the priorities reflected in the draft Action Plans.

The main result of NGO activities at this stage was the eventual inclusion of a clause regarding EU aspirations to the draft. This was due to the wide awareness and pressure campaign initiated by ANCEI with the support of the media and the opposition. The ANCEI recommendations were delivered to both the national office of Europa House and the Government with little visible effect or reaction from the Government side. In terms of civil society participation in ENP AP-related activities in Azerbaijan, the most successful so far has been work on environmental issues, where NGOs have been closely participating in the discussions and negotiations throughout the process, most probably due to its least politicized, low-sensitivity nature, compared to other priority areas.

ANCEI has continued monitoring the implementation of the Action Plan and prepared two reports of expert opinion on the first (2007) and second (2008) years of ENP AP implementation in Azerbaijan. The reports stressed the absence of progress and even regression in many priority areas. This assessment coincided with a statement by EU commissioner Benita Ferrero-Waldner. Both reports were delivered to the Government and the national EC office. These reports were also made public during a joint conference between the EC and ANCEI with the participation of the Government, as well as at a number of press conferences.

3.1.3 Legal provisions and entry points for CSO participation

There is a legal provision in the ENPI related to the participation of civil society in the process, Art. 4 of EC Regulation 1638/2006 states that "Community assistance shall be established in partnership between the Commission and the beneficiaries. It shall involve national, regional and local authorities, economic and social partners, civil society and other relevant bodies. The beneficiary countries shall involve relevant partners in the preparation, implementation and monitoring of programs and projects."⁵⁶ However, civil society rarely takes advantage of this provision to participate in the negotiation process on the development of ENPI priorities or in monitoring ENPI implementation and funding.

⁵⁴ Europa House in Baku supported and welcomed the setting up of the ANCEI, its representatives developed working contacts with this and other NGOs, sponsored and participated in joint conferences, and provided all the assistance and materials requested by the organization.

⁵⁵ The letter from the Ministry of Foreign Affairs stated that it welcomed the setting up of the ANCEI, but could not provide the office with a draft of the ENP Action Plan due to the confidential nature of the document.

⁵⁶ 32006R1638 , EU Regulation, Article 4, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32006R1638:EN:NOT>

The development of programming documents represents a fairly closed process of one-track negotiations between the Government of Azerbaijan and EC representatives. While the EC representatives during their visits meet with civil society representatives such as the media, NGOs, and independent experts, these are not included in the discussion of priorities, sub-priorities or specific projects.

Priority areas are selected on the basis of negotiations between EC officials, whose missions regularly visit the country over a six-month period, and the government. While the leading role in determining of ENPI priorities belongs to the EC, the respective sub-priorities are determined predominantly by the Azeri government.

The issue of transparency⁵⁷ in the decision-making process is at a low level of awareness.

ENPI Monitoring by CSOs: An assessment

In short, Azeri civil society of Azerbaijan was not involved in the ENPI programming phase. Even though the National Indicative Program and the Country Strategic Paper were put together by EC experts, they consulted with the Azeri Government.

On Azerbaijan's part, this consultation was organized by an *ad hoc* group under the State Commission for Eurointegration that was initiated with Presidential Decree 834, dated 1 June 2005. The Chair of this Commission is the First Secretary to the Prime Minister and the Deputy Chairs are the Minister of Foreign Affairs and the Minister of Economic Development. The Ministry of Foreign Affairs was delegated to consult with the European Commission and the Ministry of Economic Development for intra-government relations. Since they are part of the State Commission, all of Azerbaijan's Ministers have set up *ad hoc* groups within their own ministries and these *ad hoc* groups have been participating in consultations.

Thus, Azerbaijan's civil society was unable to provide comments and recommendations on the CSP and the NIP. The primary reason was its undetermined status and the role of civil society in the ENPI programmed procedure for those papers. Both the European Commission and the Government failed to inform such organizations about the substance of documents, their value and importance. Nor did they try to survey the public opinion. On the contrary, they actually kept the projects and the programming papers secret from Azerbaijan's voters.

In Azerbaijan, the decision-making and implementation process, notwithstanding the opportunities of civil society's monitoring are far from perfect. Even determined legal mechanisms "On Administrative Implementation" mentioned in the Laws of Azerbaijani Republic are not helpful, since they did not come into force yet

In spite of limited flow of information, in order to conduct monitoring Azerbaijani NGOs plan to conduct monitoring of the ENPI projects based on methodology of annual monitoring of the ENP AP as developed by ANCEI.

Since the projects based on the ENPI framework have started to be implemented from 2009, preliminary assessments by the Azerbaijani civil society will be made by the end of 2009, and will include evaluation of activities both in 2008 and 2009.

NSA entry points into CSP preparation process: Unexploited possibilities

The diagram below illustrates current and potential NSA entry points into the CSP preparation process. It shows that NSAs can get involved from the very outset while consultations are

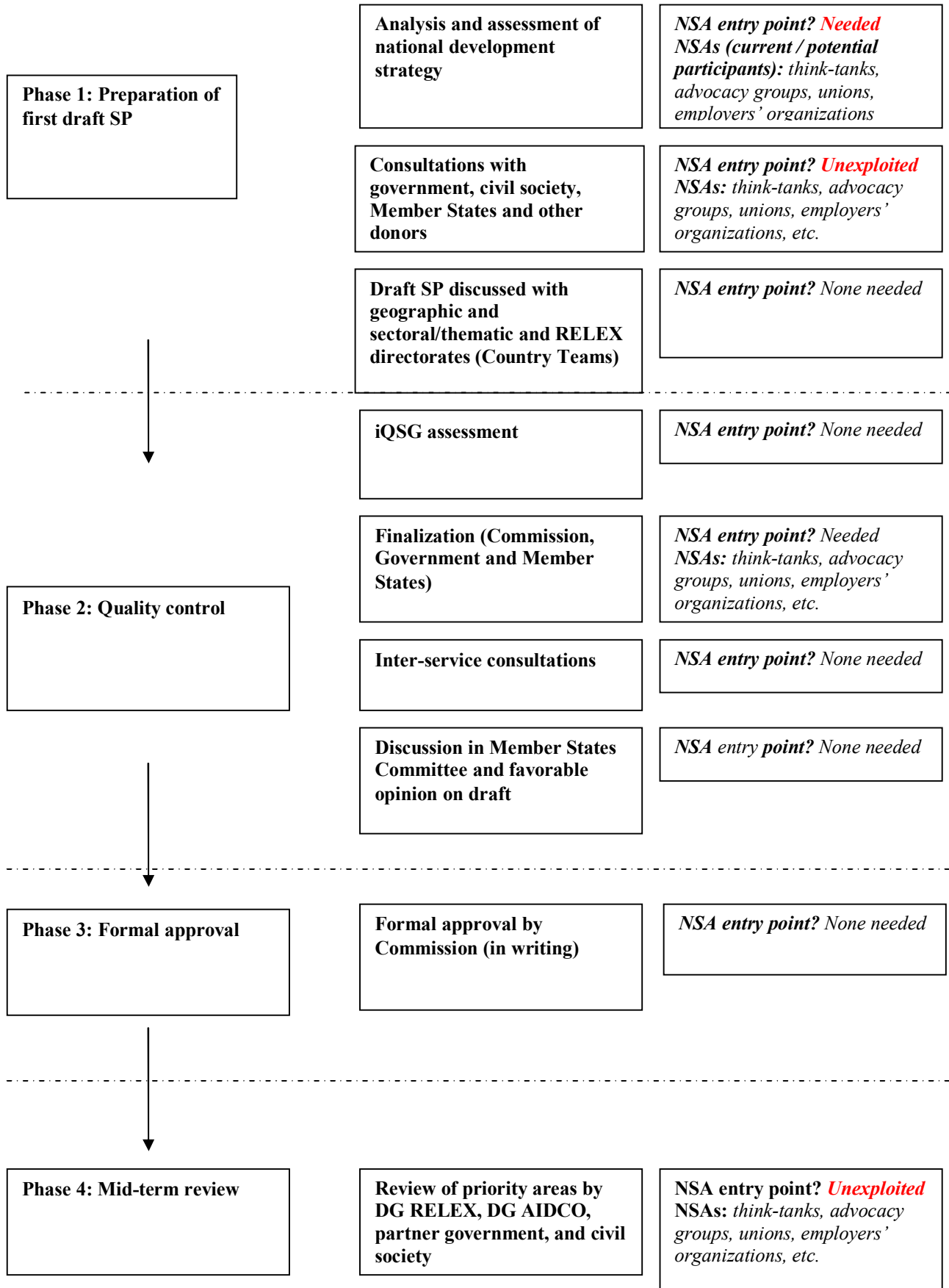
⁵⁷ Interview with the representative of the State Committee on European Integration, Baku, 13 May 2009.

ongoing between DG RELEX, national authorities and EU Member States. This represents the key NSA way into the CSP preparation process, as input is necessarily more potent upstream than downstream. The earlier NSAs get involved, the greater their impact on priority-setting will be. The problem is that this entry point is not being exploited by the NSAs.

The absence of NSA input in the finalization phase is another key feature of the CSP preparation process. Indeed, while upstream input is crucial, it is not enough. For NSA involvement in the priority-setting process to have an impact, NSAs must be able to affect the final draft of the document. This makes it possible for them to ensure that their earlier input has been understood and taken into account and to provide feedback on specific components of the CSP.

The diagram here shows that NSAs can participate in the mid-term review process, which also includes the drafting of the new National Indicative Program. This represents an excellent opportunity for NSAs to participate in program-level monitoring and evaluation of the ENPI, as the dual nature of the exercise means that it is possible to troubleshoot problems with the previous NIP and adapt to new challenges practically in real time. However, this opportunity is being missed so far.

Diagram 8. NSA entry points into Country Strategy Paper preparation process



NSA entry points into NIP preparation process: The importance of being early

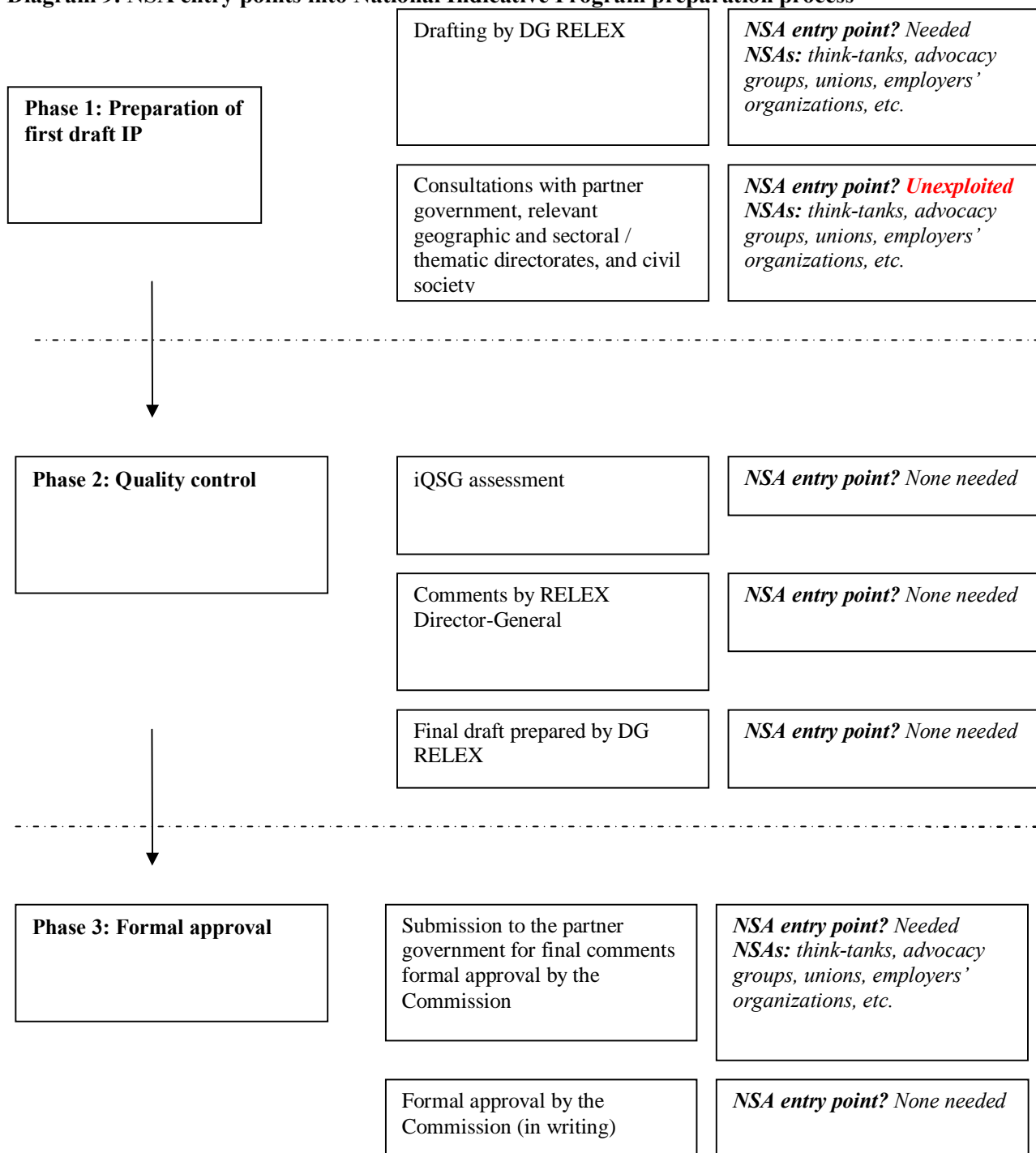
Diagram 9 shows that, as with the CSP, the National Indicative Program preparation procedure allows non-state actors to participate at the beginning of the process, through consultations during which they can comment on the draft NIP⁶ also known as a "Concept Note" put forward by DG RELEX. Again, this is not taken advantage of by both the Azerbaijani government and NSAs.

While this is an important entry point, the fact remains that NSA engagement begins once the EC has already developed a draft NIP. In other words, NSAs only enter the process once the main priorities have been identified. As a result, it is unlikely that NSA input can do much more than tweak the existing document.

NSA consultations should instead take place as part of the initial drafting process by DG RELEX. This should not be a major challenge, as NSAs participate in CSP preparation and are therefore already involved in the multi-annual ENPI programming processes.

As in the CSP preparation process, NSAs should also be involved in the finalization phase in order to ensure that their input has been adequately digested and, where possible, integrated into the final draft.

Diagram 9. NSA entry points into National Indicative Program preparation process



NSA entry points into AAP preparation process: Follow-through needed

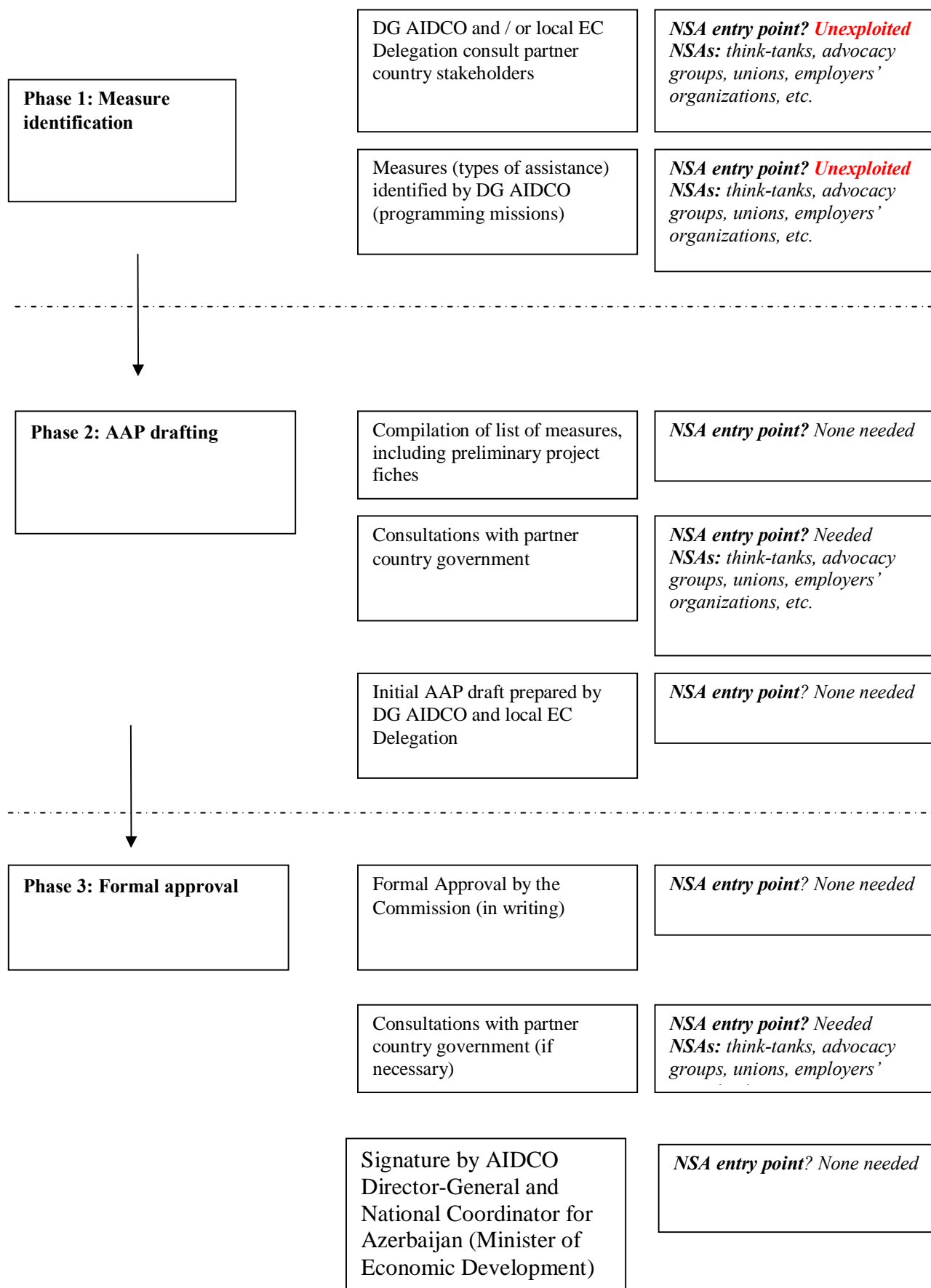
The AAP preparation process, in contrast to CSP and NIP, provides an entry point for NSA involvement at its very outset. NSAs are to participate in the initial consultations and the measure identification phase led by DG AIDCO and the local EC delegation. They can thus make their voices heard before any drafts are prepared. As it is in the AAP that projects are selected and funds allocated, this is highly significant: it allows for the possibility of NSA

impact going beyond priority-setting and affecting the more concrete and operational aspects of ENPI. This opportunity is not being used by Azerbaijani NSAs.

It should be noted that NSAs are left out of the consultations held between the EC and Azerbaijani authorities immediately prior to the actual drafting of the AAP. As noted in discussing CSP and NIP preparation procedures, it is essential that NSAs be included in the actual drafting process in order to ensure that their input has been taken into account and to request explanations where it has not.

Finally, NSAs do not participate in the formal approval procedure, which can include consultations between the EC and the partner government when necessary. While these consultations deal more with troubleshooting than with priority-setting and project selection, NSA input could provide a useful external perspective on the issues raised by either party.

Diagram 10. NSA entry points into AAP preparation process



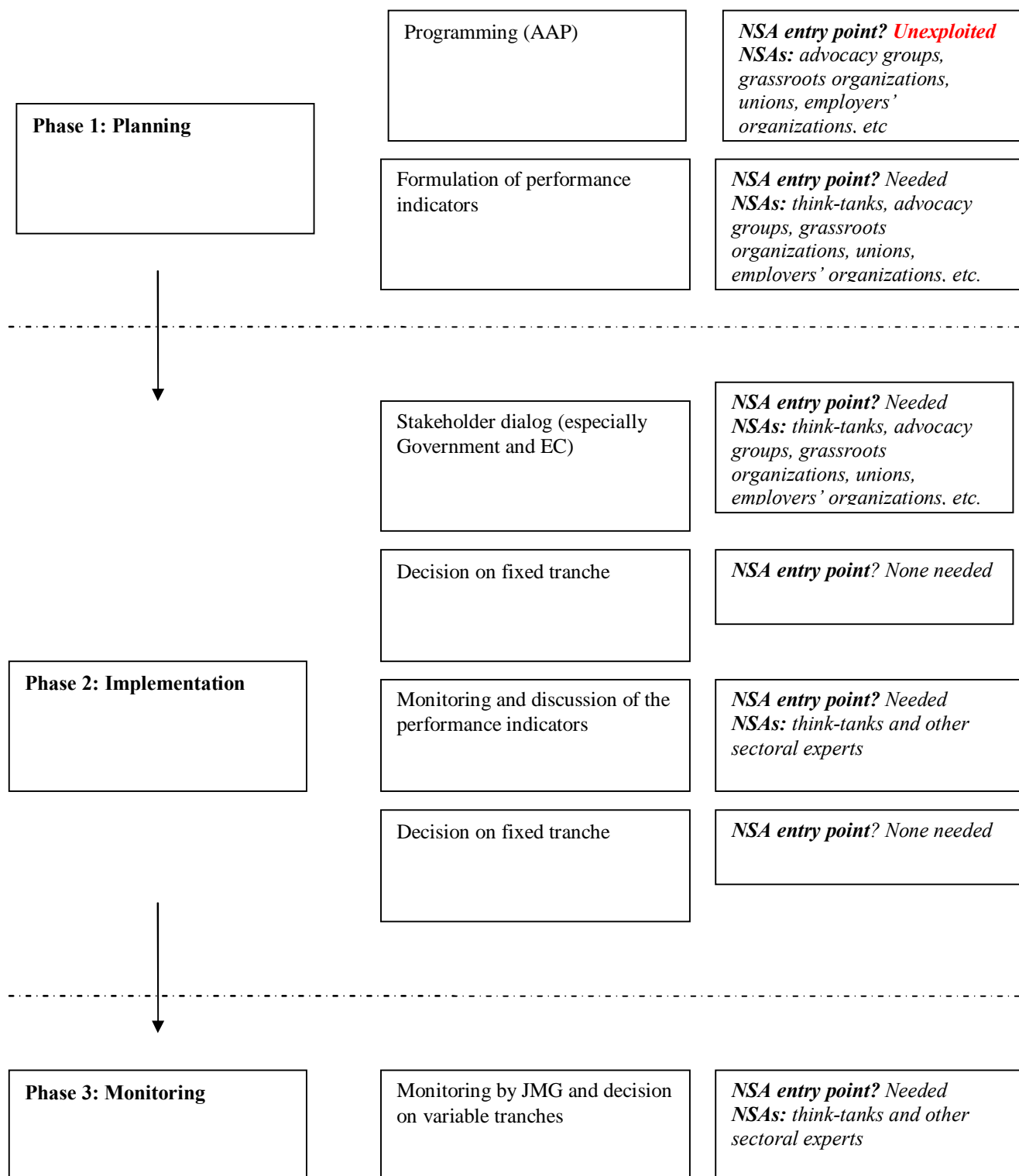
NSA entry points into Budget Support process: Not enough access

While Budget Support sectors and allocations are laid out in Annual Action Programs in whose preparation NSAs can theoretically have an active hand, these decisions are the result of negotiations between the EC and the Azerbaijani authorities, without NSA participation. In case of Azerbaijan, when there is no NSA involvement in the AAP elaboration procedures as a result there is no influence on the choice of budget support sectors or setting of the corresponding allocations.

Nor do NSAs participate in the elaboration of the performance indicators used to assess how the government of Azerbaijan performs with respect to the conditions set out for the disbursement of the variable tranches. While most NSAs do not have the expertise necessary to engage in such technical work, some – namely think-tanks and some sector-specific NGOs, such as environmental groups – do. As noted earlier, current assessment criteria often focus on inputs and procedures, such as the adoption of certain measures, rather than on impact, such as increased efficiency. The participation of NSAs, who tend to be more result-oriented, could help address this problem.

The absence of NSAs in the Joint Monitoring Group is also significant, as it excludes them from the elaboration of a monitoring system, performance monitoring, the preparation of the semi-annual progress report and the mid-term review, and decisions on the variable tranches.

Diagram 11. NSA entry points into Budget Support process



4. CONCLUSIONS AND RECOMMENDATIONS

The introduction of a new EU policy and instruments has offered unique opportunities for ENP Eastern states to upgrade their relations with the EU. The new instruments foster greater national ownership and introduce simplified funding procedures, along with additional incentives through the Governance Facility and Neighborhood Investment Fund. A greater amount of funding is being allocated for the implementation of reforms, at both the national and regional levels.

Yet, a few flaws and pitfalls have also emerged that make the involvement of civil society in ENPI implementation imperative. As practice in international aid shows, the latter might feed the trend of reinforcing authoritarianism, when autocratic leaders build a façade of institutions to adapt to the new requirements of aid agencies and international organizations, while actually prolonging and strengthening their own positions.

A greater share of funding to civil actors,⁵⁸ along with empowerment and higher status at all stages of ENPI development, extended ownership and participation, greater transparency in the process of planning and implementing both the policy and its instruments would be a solution to the challenges facing EU policies in its Eastern neighborhood. The provision to set up an NGO forum in the Eastern Partnership could be a significant step forward in this regard. ENPI might be a relevant field where the institutional accommodation of CSO participation could be built in and implemented. At the ENPI programming and implementation levels, the main objective is ensuring:

- É The relevance of projects and their implementation to reform objectives;
- É The prevention of misuse of ENPI funds.

Policy recommendations to the European Commission

- Make consultation with non-state actors a mandatory component of the Country Strategy Paper, National Indicative Program and Annual Action Program preparation processes, including in the initial phases. Civil society should be consulted by both the EC and national authorities before any drafts are put forward;
- Given the lack of a strong tradition of civil society participation in Azerbaijan, maintain a separate track for civil society consultation by the EC;
- Consider making new civil society entry points into relevant processes: the CSP mid-term review, the drafting of new NIPs and AAPs, and the formulation and functioning of budget support JMGs;
- Assist the Government of Azerbaijan in identifying potential NSA participants in ENPI processes;
- Make key monitoring and evaluation documents, including criteria, indicators, benchmarks, and so on, easily accessible to the public and CSOs;
- Develop a trustworthy monitoring instrument for budget support that would enable civil society to play its role, namely during the CSP mid-term review and the drafting of new NIPs;
- Start monthly or quarterly public reports on the financial resources provided to the national government;

⁵⁸ On this issue, see Leila Alieva, *The EU and the South Caucasus*, CAP/Berthelmann Stiftung, discussion paper, Berlin, 2006.

- Within the new opportunities available through Twinning Programs and Budget Support, ensure civil society involvement in selected projects and in the strategic evaluation of opportunities for selected projects;
- Open the financial agreement on each project for civil society to provide feedback before it is signed by the official sides. These projects should be in an open databank.

Policy recommendations to the Government of Azerbaijan

- Establish a clear, effective, and mandatory procedure for civil society consultation in the ENPI programming process;
- Formalize civil society participation in the attraction and application of foreign aid in general and ENPI funding in particular through a normative act;
- Make civil society consultation in the development of the national development strategy mandatory, drawing on foreign examples, such as the EU's "minimum rules for consultation";
- Better coordinate the National Development Strategy to improve the policy-driven nature of ENPI assistance and facilitate results-based monitoring.
- Develop procedures for the analysis and implementation of civil society input within the foreign aid coordination framework;
- Increase transparency by making key ENPI documents readily available to non-state actors and other relevant stakeholders. ENPI projects and information on the implementation procedure should be posted on the websites of each ministry and state agencies both in English and Azerbaijani;
- Engage in capacity-building to ensure that civil servants have the knowledge and skills necessary to effectively monitor ENPI assistance;
- Improve the legal and normative framework for budget support to ensure its transparency, accountability and effectiveness;
- Inform the public about the sources of budget support and the scope of received assistance, making key documents readily available to civil society organizations and other relevant stakeholders;
- Reform the current system of public procurement to prevent corruption.

Policy recommendations for civil society

- On the individual civil society organization level: examine the existing entry points described in this report, identify those in which the organization is most likely to make a significant contribution, and use them.
- Focus on capacity-building to ensure that civil society organizations fully understand the ins and outs of ENPI funding and are able to assume their "watchdog" function on both the financial and policy fronts;
- Establish close relations with the European Commission's delegation in Azerbaijan in order to remain up-to-date on opportunities for civil society involvement in ENPI planning, monitoring, and evaluation;
- Adopt a pro-active role and produce at its own initiative specific proposals and suggestions to improve the implementation of the ENPI financing to the EC Delegation;
- When necessary, form civil society coalitions to create new entry points into ENPI processes;
- When necessary, maintain pressure on government officials to obtain access to relevant unclassified information;
- Raise awareness about ENPI and the opportunities it presents, including by holding formal information sessions and informal roundtables with other NSAs, in both the capital and the regions;

- Demand reform of the monitoring tools currently employed by the National government with European Commission financing;
- Create effective partnerships of monitoring the external assistance with the appropriate state institutions, namely line ministries;
- Increase domestic capacities for monitoring and policy evaluation of the priorities financed by the EU in Azerbaijan, and increase proactive efforts to make the national government accountable, transparent and effective.

APPENDIX 1: PRESIDENTIAL DECREE №388

**Decree of the President of Azerbaijan
approving Rules for signing and approving agreements
for technical assistance and grants**

A decision is hereby made to improve the practice of signing contracts for grants and technical assistance, by central executive bodies and other organizations of the Republic of Azerbaijan:

1. To approve the rules for signing and approving agreements for receiving technical assistance and grants (attached).
2. To resolve all issues originating from this Decree, by the Cabinet of Ministers of Republic of Azerbaijan.
3. This Decree enters force on the date of publication

Ilham ALIYEV,
President of the Republic of Azerbaijan
Baku, 17 April 2007
388

Approved by
Presidential Decree of Azerbaijan
388, 17 April 2006

**RULES
for signing and approving grants
related to technical assistance and grant**

I. GENERAL RULES

These rules regulate signing and approving of agreements (hereafter, the agreements) on behalf of Republic of Azerbaijan or the Government of Azerbaijan for receiving technical assistance and grants.

The primary aim of these rules is directed at the socio-economic, institutional and structural changes constituting most of Section 1.1, and consisting of the preparation of properly grounded projects as well.

APPENDIX 2. PRESIDENTIAL INSTRUCTION

Instruction of the President of the Republic of Azerbaijan

On establishing a State Commission for the Integration of Azerbaijan into the European Union

1. To form the State Commission on European Integration of Republic of Azerbaijan according to the following list:

Chair:

Abid Sharifov Deputy Prime Minister, Republic of Azerbaijan

Deputy Chairs:

Elmar Mammadyarov Ministry of Foreign Affairs, Republic of Azerbaijan

Shahin Mustafayev Ministry of Economic Development, Republic of Azerbaijan

Members of the Commission:

Ali Asadov Assistant to the President, Republic of Azerbaijan

Fatma Abdullazade Head, Department of Humanitarian Policy under the Presidential Administration, Republic of Azerbaijan

Shahin Aliyev Head, Legislative and Legal Expertise Department under the Presidential Administration, Republic of Azerbaijan

Fuad Alesgerov Head, Department on Law Enforcement Bodies under the Presidential Administration, Republic of Azerbaijan

Novruz Mammadov Head, Department of Foreign Relations under the Presidential Administration, Republic of Azerbaijan

Ali Hasanov Head, Public Policy Department under the Presidential Administration, Republic of Azerbaijan

Mail Rakhimov Head, Economic Policy Department under the Presidential Administration, Republic of Azerbaijan

Ramil Usubov Minister of Internal Affairs, Republic of Azerbaijan

Eldar Mahmudov Minister of National Security, Republic of Azerbaijan

Zakir Qaralov Prosecutor General, Republic of Azerbaijan

Fikret Mammadov Minister of Justice, Republic of Azerbaijan

Ziya Mammadov Minister of Transportation, Republic of Azerbaijan

Misir Mardanov Minister of Education, Republic of Azerbaijan

Mecid Kerimov Minister of Industry and Energy, Republic of Azerbaijan

Ismet Abbasov Minister of Agriculture, Republic of Azerbaijan

Ali Nagiyev Minister of Labor and Social Protection, Republic of Azerbaijan

Ali Abbasov Minister of Communications and Information Technology, Republic of Azerbaijan

Abulfes Garayev Minister of Culture and Tourism, Republic of Azerbaijan

Samir Sharifov Minister of Finance, Republic of Azerbaijan

Fazil Mammadov Minister of Taxation, Republic of Azerbaijan

Huseynqulu Bagirov Minister of Ecology and Natural Resources, Republic of Azerbaijan

| | |
|----------------------------|--|
| Elmira Suleymanova | Ombudsman, Republic of Azerbaijan |
| Kamaladdin Heydarov | Head, State Customs Committee, Republic of Azerbaijan |
| Elchin Guliyev | Chief, State Border Service, Republic of Azerbaijan |
| Hicran Huseynova | Chair, State Committee for Family, Women and Children's Issues, Republic of Azerbaijan |
| Rafiq Aliyev | Head, State Committee for Religious Affairs, Republic of Azerbaijan |
| Arif Veliyev | Chair, State Statistics Committee, Republic of Azerbaijan |
| Elman Rustemov | Chair, National Bank Executive, Republic of Azerbaijan |
| Sahib Rehimov | Head, State Committee for Refugee and Internally Displaced Persons Affairs, Republic of Azerbaijan |

2. To inform the President of the Republic of Azerbaijan continually on works done.
3. To entrust the State Commission's activities in cooperation with the European Union to the Ministry of Foreign Affairs and for this reason to establish a related agency at the Ministry of Foreign Affairs.
4. To consider annulling Presidential Decree 277 dated 23 November 23 1999 (Legislative Collection, 1999, 11, Art. 646; 2002, 6, Art. 348, 7, Art. 425), Republic of Azerbaijan "On the State Commission for Partnership and Collaboration with the European Union."
5. The Cabinet of Minister shall resolve all issues arising from this Decree.
6. This Decree enters force from the moment of being signed.

Ilham Aliyev
President, Republic of Azerbaijan

1 June 2005, 834, Baku

APPENDIX 3. WORKING GROUPS UNDER STATE COMMISSION ON EUROPEAN INTEGRATION

1. Working group on economic issues

Coordinating unit on economy - Ministry of Economic Development

Head of group - Minister of Economic Development

Members of group Cabinet of Ministers, Head, Economic Policy Department
Cabinet of Ministers, Head, Foreign Economic Relations Department
Ministry of Foreign Affairs, Head, Economic and Financial Policy Unit
Ministry of Economic Development, Executive Director of Coordination Bureau for EU International Technical Assistance to Azerbaijan
Ministry of Agriculture, Head, Economy and Forecasting Department
Ministry of Agriculture, Head, Department on Land Supervision, Irrigation And Environmental Protection
Ministry of Ecology and Natural Resources, Head, International Relations Department
Ministry of Labor and Social Protection, Head, Economic Department
Ministry of Industry and Energy, Department Head
Ministry of Industry and Energy, chief advisor, Strategic Development and Key Projects Department
Ministry of Industry and Energy, leading advisor, Foreign Investments and Contract Sector, Economy Department
Ministry of Industry and Energy, leading advisor, Licensing Sector, Economy Department
Ministry of Communication and Information Technologies, Minister
Ministry of Communication and Information Technologies, Head, Department for International Relations and NGO Relations
Ministry of Taxes, Head, International Relations Unit
Ministry of Taxes, Senior Inspector, State Taxes, International Contracts Department, International Relations Office
State Customs Committee, Chief, Head, Tax Supervision Unit
State Customs Committee, Chief, Head, Financial Rates and Currency Supervision Unit
State Procurement Agency, Head, Department for Training and Coordination with International Organizations
State Agency for Standardization, Metrology and Patents, chief advisor on work with regional and national standards, Standardization Department
State Agency on Standardization, Metrology and Patents, chief advisor on international relations, Legislation and Methodology Department
Ministry of Finance, Director, International Economic Relations Department
National Bank, Chief advisor to the Board
State Statistics Committee, Head, Statistical Data Department
State Statistics Committee, Head, Trade Statistics Department

State Statistics Committee, Head, Industrial, Transport and
Communication Statistics Department
State Committee on State Property Management, Head, Attracting
Investment and Privatization Department
State Social Protection Fund, analyst, Budget Forecasting

2. Working group on transport and energy issues

*Coordinating entities on transport and energy sectors - Ministry of Transport and Ministry of
Industry and Energy*

Head of group

Deputy Minister of Transport, Mr. Panakhov
Deputy Minister of Industry and Energy

Members of group

Presidential Office, Head, Economic Policy Issues Department
Cabinet of Ministers, Head, Transport and Communication
Department
Cabinet of ministers, Head, Oil and Chemicals Department
Ministry of Foreign Affairs, Head, Economic Cooperation and
Development Unit
Ministry of Industry and Energy, Department Head
Ministry of Industry and Energy, chief advisor, Strategic Development
and Key Projects Department
Ministry of Industry and Energy, leading advisor on foreign investments
and contract sector, Economy Department
Ministry of Industry and Energy, leading advisor on licensing sector,
Economy Department
Ministry of Economic Development, Director, Economic Policy and
Forecasting Department
Ministry of Economic Development, chief advisor
Ministry of Economic Development, chief advisor on infrastructure
policy, Economic Policy and Forecasting Department
Ministry of Economic Development, leading advisor on European
integration division, Coordinating Bureau on EU International
Technical Assistance to Azerbaijan
Ministry of National Security, Head, Department for Fuel Energy
System Security
Azerbaijan State Airlines, Head, Coordination and Foreign Relations
Department, Intergovernmental Agreements Division
Azerbaijan State Caspian Shipping, Head, Legal Department
Azerbaijan State Railways, Chief Engineer
Azerbaijan State Maritime Administration, Head, Department
Azerbaijan State Civil Aviation Administration, Head, Department
Baku International Sea Port, Head, Legal Department
State Customs Committee, Chief of customs supervision
State Customs Committee, Head of Supervision of Financial Rates and
currency issues, Department
State Committee on State Property Management, Head, sector in the
Department of State Entities and Property Management
State Border Service, International Relations Unit, Chief Officer of
International Legal and Cooperation Department
State Oil Company, Advisor to First Vice-President
Azerenergy Company, Head, Foreign Economic Relations Department
Azerigas Corporation, Head, Economy and Forecasting Department

3. Working group on human rights and democratization

Coordinating body on human rights and democratization - Ministry of Foreign Affairs

- Head of group** Deputy Minister of Foreign Affairs - M. Mammad-Quliyev
- Members of group** Presidential Office, Head, Coordination of Law Enforcement Bodies
Presidential Office, Head, Legislation and Legal Analysis Department
Presidential Office, Head, Public Policy Department
Ministry of Foreign Affairs, Department for Human Rights, Democratization and Humanitarian Issues
Ministry of Foreign Affairs, Head, Human Rights and Democratization Division
Ministry of Justice, Deputy Head, International Legal Cooperation Department
Ministry of Justice, Head, Human Rights Division
Ministry of Internal Affairs, Deputy Head, International Cooperation Division
Prosecutor General Office, Deputy Head, International Relations Division
Office of Ombudsman, Head, International Relations Sector
State Committee on Family, Women and Children Problems, Deputy Chair, International Relations
State Committee on Religious Institutions, Head, State Committee Division on Refugees and IDPs
State Committee on Religious Institutions, Head, apparatus

Coordinating bodies on migration, human trafficking, refugees and IDPs - Ministry of Internal Affairs, State Committee on Refugees and IDPs, State Migration Service

- Heads of group** Deputy Minister of Internal Affairs - V. Eyvazov
Deputy Chair, State Committee on Refugees and IDPs - S. Rakhimov
Deputy Head, State Migration Service

- Members of group** Cabinet of Ministers, Head, Refugees, IDPs, Migration and International Humanitarian Organizations
Cabinet of Ministers, Head, Military and Law Enforcement Institutions Department
Ministry of National Security, Head, Division to Combat Illegal Migration
Ministry of Justice, chief advisor, Legislature and Legal Promotion Unit
Ministry of Foreign Affairs, Head, Human Rights, Democratization And Humanitarian Issues Unit
Ministry of Economic Development, Head, Social Policy Sector, Department of Economic Policy and Forecast
State Customs Committee, Chief of Customs Supervision
State Customs Committee, Chief of Financial Rates and Currency Supervision
State Committee for Refugees and IDPs, Head of Refugee Status Determination Department

State Border Service, Chief Officer, International Legal and Cooperation Department, International Relations Unit
State Migration Service, Head, Department

5. Working group on science, education, youth, culture, labor and social protection

Coordinating body on science, education, youth, culture, labor and social protection - Cabinet of Ministers, Department of Science, Culture and Social Affairs

Head of group Cabinet of Ministers, Head, Department of Science, Culture and Social Affairs

Members of group Presidential Office, Deputy Head, Humanitarian Policy Department
Ministry of Foreign Affairs, Human Rights, Democratization and Humanitarian Issues Unit
Ministry of Foreign Affairs, Third Secretary, Humanitarian Issues Department
Ministry of Education, Head, Department of Strategic Analysis and Planning
Ministry of Labor and Social Assistance, Director, Scientific Research and Training Center for Labor and Social Issues
Ministry of Youth and Sport, Head, Department
Ministry of Culture and Tourism, Head, Cultural Policy Department
Ministry of Health, Head, Information and Statistics Unit
State Committee on Religious Institutions, Head, Department
State Social Protection Funds, Head, Internal Audit Department
State Copyrights Agency, Chair, State Copyrights Agency,
State Copyrights Agency, Head, Department for Copyright Protection

6. Working group on legal cooperation

Coordinating body on legal cooperation - Ministry of Foreign Affairs

Head of group Deputy Minister of Foreign Affairs - Kh. Khalafov

Members of group Presidential Office, Head, Department of Legislature and Legal Analysis
Presidential Office, Head, Department for Coordination of Law Enforcement Bodies
Cabinet of Ministers, Head, Legal Department
Ministry of Foreign Affairs, Deputy Head, International Legal and Agreements Unit
Ministry of Internal Affairs, Deputy Head, International Cooperation Unit
Ministry of National Security, Head, Legal Department
Executive Director of Coordinating Bureau of EU International Technical Assistance to Azerbaijan
Ministry of Economic Development, leading advisor of legal analysis and expertise sector, Legal Department
Prosecutor General Office, Head, International Relations Department
State Committee for Refugees and IDPs, lawyer/chief advisor
State Committee on State Property Management, Head of sector, Legal Department
State Border Service, Chief Officer, Legal and Cooperation Department, International Relations Unit

7. Working group on political and security issues

Coordinating body on political and security issues - Ministry of Foreign Affairs, Ministry of National Security

Head of group

Deputy Minister of Foreign Affairs - A. Azimov
Deputy Minister of National Security - A. Nagiyev

Members of group

Assistant to the President on military affairs
Presidential Office, Head, Department On Cooperation With Law-Enforcement Bodies
Presidential Office, Head, International Relations Department
Presidential Office, Head, Public Policy Issues Department
Cabinet of Ministers, Head, Foreign Economic Relations Department
Cabinet of Ministers, Head, Department for Military and Law Enforcement Institutions
Cabinet of Ministers, Head, Department for Refugees and IDPs problem, Migration and International Humanitarian Organizations
Ministry of Internal Affairs, Deputy, International Cooperation Unit
Ministry of National Security, Head, Information Analysis Department
Ministry of Justice, Head, Bailiffs and Commissioners Unit
Ministry of Justice, Head, Department on Procedures and Supervision
Ministry of Transport, Head, International Relations Department
Ministry of Ecology and Natural Resources, Head, International Cooperation Department
Ministry of Defense, Head of Division, International Military Cooperation Unit
State Customs Committee, Head, Office of Customs Supervision
State Customs Committee, Head, Office of Financial Rates and Currency Supervision
State Committee on Refugees and IDPs, Chief-of-Staff
State Border Service, Chief officer, International Relations Unit, International Legal and Cooperation Department
Special State Protection Service, Head, Counterintelligence Department, Representative of State Migration Service

Note: The lists of members of the working groups were prepared according to positions in letters from the relevant entities. Please present the information on the relevant officials (telephone numbers, e-mail or post address) to the coordinating bodies of working groups.

APPENDIX 4. LIST OF INTERVIEWED PARTICIPANTS

The authors would like to thank the following people for their invaluable comments through e-mails and through interviews:

Alan Waddams, Ambassador, EC delegation

Rza Zulfugar Zade, (ECD)

Mikolaj Swietopelek- Bekasiak (ECD)

Elena Prokhorova (Consultant, Brussels)

Rufat Mammadli (NCU)

Mehebbet Mammadov, Head, Supervision of State and International Programs Implementation for the Ministry of Industry and Energy

Cahangir Efendiyev, long-term expert, Support for NCU and PCA Implementation in Azerbaijan

Saida Bagirova (Manager, Baku World Bank Office)

APPENDIX 5. LIST OF INTERVIEWEES AAP 2007 BUDGET SUPPORT TO ENERGY SECTOR (BSES)⁵⁹

The BSES budget is €14 million. Of this, €1 million will be used for technical assistance during implementation and €13 million for budget support. It was suggested to schedule budget support transfers over three years: the first tranche €3 million and the other two tranches €5 million each, with each payment determined by the EU and the Government of Azerbaijan. In the case of technical assistance, the allocated €1 million will be spent on managing the BSES, and special technical consultative assistance will be provided for the external research missions at the request of the beneficiary. The transfer of the first or fixed tranche will depend on the signing of the Financial Agreement by the Government of Azerbaijan. The degree to which Azeri authorities have respected the conditions regarding the BSES will be assessed once a year, while the Program deadline is 48 months after the signing of the Financial Agreement.

While the transfer of the fixed tranche is based on a set of general conditions, the variable tranches are tied to specific indicators, so that failure to meet these objectives could result in a reduction or even suspension of budget support allocations. For example, a public finance management component is included in the energy sector under the support to the state budget framework, where the Government is supposed to implement specific reforms. The aim is the development of more advanced systems for management of financial resources. If there is no progress in this area, the next transfer based on the specific indicator will be reduced.

Currently, work on the project is progressing in two directions at the Industry and Energy Ministry. One is within the framework of Twinning Program, which includes knowledge and skill transfer to this Ministry, while the second is the preparation and approval of projects within the framework of the budget support program. According to a preliminary agreement, this work should have finished by the end of 2009.

AAP 2008: Budget Support for Judiciary Reform⁶⁰

The aim of this program is to support the modernization of Azerbaijan's judiciary system through rule of law and stronger of human rights. The expected amount for the judiciary sector budget support program is €16 million, of which €14.5 million will be spent on budget support for the project and €1.5 million on technical support. In the SPEP, the first tranche is expected to be €3.5 million or 25%. The next two annual transfers will be €3.5 million and €7.5 million, based on the Financial Declaration signed between the EU and Azerbaijan. €1.5 million of the technical assistance funding will be allocated to support the monitoring of the ISJS project, that is, for capacity-building and external research missions.

Regional Judiciary Branch: The aim of RJB is to increase managerial knowledge and skills, to improve the coordination of regional judiciary organs, to facilitate effective communication between the RJB and CJB, and, in the framework of RJB, to develop access to legal documentation, including an e-library, and to increase the informativeness of legal procedures carried out by public institutions.

⁵⁹ http://ec.europa.eu/europeaid/where/neighborhood/regional-cooperation/enpi-east/documents/annual_programs/azerbaijan_2007_en.pdf

⁶⁰ http://ec.europa.eu/europeaid/documents/aap/2008/ec_aap-2008_az_en.pdf

Judiciary Library: The aim is to develop organizational knowledge and skills in the Judiciary Library through higher level professional development and degree courses, to provide public information about recommended programs and courses by the JA, to increase faculty resources and support JA infrastructure, and to protect the legal rights of the poor.

Penitentiary Service: The aim is implement effective management in all penitentiary services, to ensure effective planning of services and organization of prisoners. At the same time, the idea is to increase knowledge and skills, the guarantee of human rights, and upholding the rules of the European Penitentiary System will be a key activity area.

AAP 2009 “Support the Development of Agriculture in Azerbaijan”⁶¹

The budget support program for the development of Azerbaijan’s farm sector is €14 million, of which €13 million is budget support and €1 million will be spend on technical assistance. Budget support will be implemented over 3 years, with a fixed transfer of €3 million and two more tranches of €5 million each subject to mid-term reviews approved between the EU and Azerbaijan’s Government based on the Financial Declaration.

The recommended sector policy aims to develop sustainable agriculture and to diversify rural economies.

Based on state program “Consumers of Safe Products,” in which implementation takes into consideration the 12 priorities of the ENP Action Plan, the program focuses on three major objectives or priorities, so that the EU would make a priority in this program:

- to increase access to better quality products;
- to stabilize the growth and production of food;
- to encourage entrepreneurship in agriculture and develop the countryside by improving business conditions and institutional opportunities.

⁶¹ http://ec.europa.eu/europeaid/documents/aap/2009/af_aap_2009_aze.pdf