



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2015 in favour of Azerbaijan

Action Document for Integrated Regional Development of Azerbaijan (IRDA)

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1 Grant – Twinning call for proposals, and 5.3.2. Grants – call for proposals (direct management).

1. Title/basic act/ CRIS number	Integrated Regional Development of Azerbaijan (IRDA) CRIS number: ENI/2015/038-083 financed under European Neighbourhood Instrument
2. Zone benefiting from the action/location	Azerbaijan
3. Programming document	Single Support Framework 2014-2017
4. Sector of concentration/ thematic area	Regional and rural development
5. Amounts concerned	Total estimated cost: EUR 14 500 000 Total amount of EU budget contribution: EUR 13 500 000 This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 1 000 000

6. Aid modality(ies) and implementation modality(ies)	Project Modality Direct management: grants – calls for proposals (including Twinning), procurement of services			
7. DAC code(s)	250 - Business and other services; 311 - Agriculture; 321 - Industry; 400 - Multisector; 430 Other multisector - 43040 Rural development.			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance		<input checked="" type="checkbox"/>	
	Aid to environment		<input checked="" type="checkbox"/>	
	Gender equality (including Women In Development)		<input checked="" type="checkbox"/>	
	Trade Development		<input checked="" type="checkbox"/>	
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>		
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity		<input checked="" type="checkbox"/>	
	Combat desertification		<input checked="" type="checkbox"/>	
	Climate change mitigation		<input checked="" type="checkbox"/>	
	Climate change adaptation		<input checked="" type="checkbox"/>	
9. Global Public Goods and Challenges (GPGC) thematic flagships	<ul style="list-style-type: none"> – EU Biodiversity for Livelihoods Initiative (EUBLI) – SWITCH TO GREEN: supporting private sector-led inclusive green growth – Trade integration for green and inclusive growth 			

SUMMARY

Azerbaijan's economy has witnessed strong growth over the last decade, while making substantial progress in poverty reduction. Despite this achievement, important disparities remain, notably between the oil-rich capital agglomeration and the rest of the country, and more generally, between its urban centres and the rural areas.

The *Integrated Regional Development of Azerbaijan Programme* aims to support regional development by contributing to business development, investment promotion and employment generation, while raising rural livelihoods and quality of life in rural areas. It aims to do so in a comprehensive manner, by improving on the one hand at the macro level

the institutional environment within which rural small and medium-sized enterprises (SMEs) and family owned farms can do their business (establishment of an integrated rural business information system providing key business data to rural SMEs, improved rural development support), while working on the other hand at the meso and micro-level at the progressive provision of dedicated business support services (including the gradual establishment of a demand driven advisory services system, support in the paced creation and nurturing of agricultural connections and networks, the provision of better tailored business advisory services such as those provided by incubators) and outreach related actions (awareness campaigns, pro-entrepreneurial initiatives and investor attraction) to create demand for agricultural products produced in some of the regions of Azerbaijan.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

1.1.1 Public Policy Assessment and EU Policy Framework

Azerbaijan is an upper middle income country with GDP per capita of USD 7 986 in 2014. As a result of strong growth and targeted social assistance programmes, the poverty rate according to national statistics has dropped significantly, from around 50% in 2000 to 5% in 2014. However, the economy is largely dependent on extraction and export of oil resources (39% of GDP). In addition, despite considerable economic progress, disparities between the capital city (and its agglomeration) and other regions are still evident.

Big disparities between the capital and regions are reflected in various indicators. For instance, per capita income in regions lags behind the capital by a factor of more than four, while the poverty level in the regions is 6% compared to the country's average of 5% (and approx. 2% in the capital of Baku). The rate of investment per capita in the central agglomeration is 6.3 times higher compared to the regions, while the agricultural sector which employs 37% of the workforce, generates only 5.3% of GDP (2014).

The main challenge of the country is to redistribute the oil wealth for a long-term, sustainable and balanced economic growth. It is widely recognised that implementing new approaches for regional and rural development is of particular importance for stimulating the development of the non-oil economy, increasing the country's overall competitiveness and for contrasting the rural-to-urban drift problem.

Among the structural factors behind the socio-economic divergence of the regions, the following have been identified as key: low agricultural productivity due to the predominance of small scale farming with limited access to/knowledge of modern farming techniques and innovations; absence of appropriately tailored and easily accessible business development services and financial instruments for rural development; largely disintegrated ag-food business value chains/ primary production fragmentation, insufficient marketing of local food products.

Agriculture is the third most important part of the economy following oil and construction sectors. The agricultural sector has been growing in the past years⁶ following continued Government support, including reductions in value-added tax on agricultural inputs and in the lending rate of the main agro-leasing company, and completion of irrigation and infrastructure initiatives. In addition to area related agricultural subsidy payments coupled to wheat production, the state pays 50% of the costs of inputs like fuel, lubricants and fertilizers – a support system that is not only ineffective in terms of increasing agricultural productivity and added value but also incompatible with World Trade Organisation (WTO) regulations exceeding amber box *de minimis* levels and calling for a transformation of the Government's rural support measures in line with EU standards and (good agricultural) practices.

The Azerbaijan's National Fund for Entrepreneurship Support (ANFES) plays an active role in state funding targeting mainly rural investments: in 2014 70% of its loans were allocated to business entities operating in the regions. Furthermore, 56% of the Fund's loans were channeled to agricultural production and processing. However welcome, this flow of public support remains largely delinked from the catalogue of agricultural support schemes and is not embedded in an overarching rural development programming framework.

The Government of Azerbaijan is aware of these challenges, and has stated its commitment to resolve these issues as outlined in the following documents:

- “Azerbaijan 2020: look into the future” concept of development places the economic diversification agenda at the heart of the Government's socio-economic policy;
- the State Programme for Socio-Economic Development of the Regions of Azerbaijan for 2014-2018;
- the State Programme of Poverty Reduction and Sustainable Development for 2008-2015;
- the State Programme on Reliable Food Supply of Population in Azerbaijan for 2008-2015;
- Azerbaijan's National Employment Strategy for 2006-2015 and the State Programme of Implementation of the Employment Strategy for 2011-2015;
- the recently drafted (with EU assistance) Development Strategy for Agriculture for 2015-2024 which is pending submission for approval to the Cabinet of Ministers.

There is a strong convergence of views among key Government interlocutors such as the Ministry of Economy and Industry (MoEI) and the Ministry of Agriculture (MoA) on the importance and urgency to support and transform the agricultural sector (and related industry) in the country as a way to sustainably diversify the economy and enhance its competitiveness. The strong reform commitment of the Ministry of Agriculture, its determination to reach out to the farmers by establishing a system of 52 regional offices and 8 regional advisory centres, the availability of funds for agricultural subsidies (about 180 million AZN in 2015) that could serve as the nucleus for the country's WTO compatible rural development programming and

⁶ Although only from 2012 onwards agriculture grew faster than the overall economy.

the Entrepreneurship Fund (more than 1 billion AZN project portfolio) are strong guarantors for the sustainability of the envisaged reforms beyond the lifetime of this programme.

The human resources within the structures of the MoA have been significantly improved, with new skilled managers working in tandem with younger professionals with project management background. An innovative approach (or at least desire to follow this direction) is evident and data and IT-supported elements of agricultural policy are pursued. For this reason, the capacity development components for MoA will fall on fertile ground.

As regards the MoEI and its subsidiary state services, a critical constraint might be the lack of coordination and cooperation with the MoA, which could either result in the necessity of repetition of certain capacity building efforts or in overlapping/conflicting results of the policies operated by the two beneficiaries of the programme.

Risk-mitigating instruments are the mutually beneficial information systems inter-exchanged between the two parties, in particular the rural business information system. In addition, the network of advisory services and the development of agricultural connections will underline that both institutions have their specific benefits (e.g. the MoA in better resource management and the MoEI in more capable recipients of financial instruments). Both Ministries would benefit from capacity development support, as well as enhanced coordination in notably the grey areas delineating rural development (primary responsibility of the MoA) and regional development (primary responsibility of the MoEI).

The EU is fully supportive of this economic diversification approach, as witnessed by its financing of several related programmes (see section 3.1). IRDA complements and further builds on past and on-going EU support to further rural transformation of the country with – at its core – the progressive introduction of a network of advisory services targeting ag-food economy in the country, complemented by measures to strengthen the institutional framework for rural development programming and the provision of business services and networking and linkage opportunities tailored to the needs of rural SMEs and small scale farmers.

The EU can offer policy advice and assistance on integrated approaches towards economic and social cohesion based on its experience with and management of the EU Regional Cohesion Funds. The proposed support is in line with other relevant EU policies such as "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future", mainly implemented through the European Agricultural Fund for Rural Development (EAFRD). It also corresponds to the targets of the European Regional Development Fund prioritising smart, sustainable and inclusive growth, further addressed under the common framework of the European Structural and Investment Funds.

1.1.2 Stakeholder analysis

Key Government stakeholders are:

- **at national level** the Ministry of Economy and Industry⁷ (MoEI) and the Ministry of Agriculture (MoA).
- **at local and regional level** and potential beneficiaries of the IRDA interventions are in particular the rayons' executive powers, municipalities, as well as the regional offices of the two line Ministries mentioned above and the locally based research institutes⁸.
- the entities engaged in the concept of the **advisory services network** currently being developed by the Ministry of Agriculture as well as the existing and future **incubators** under the authority of the MoEI.

The inclusion of **Non-Governmental Stakeholders** in the programme design and implementation will be one of the guiding principles of the IRDA. Taking into account the integrated approach of the programme including Government-led support and community-based approaches, Non-Governmental Organisations (NGOs) engaged in socio-economic development activities in the regions and private sector are the direct addressees as well as potential beneficiaries of IRDA interventions. In addition to “classic” civil society organisations (e.g. development organisations), the participation of intermediary organisations, business associations, research institutions, training and qualification providers and similar institutions is equally foreseen under the outreach related activities.

Target groups and final beneficiaries are:

- Entrepreneurial **youth and women** from rural areas, as it is among them that the unemployment rates have been identified as higher;
- **Small and Medium Sized Enterprises**, which represent the majority of the private sector representatives in rural areas, as well as **farmers and rural population**.

This Action's objectives, expected results and activities described hereunder constitute the outcome of direct **consultations** held with the key partners of the EU's assistance in Azerbaijan and with the targeted groups of potential beneficiaries. The process of consultations involved a series of group meetings or individual one-on-one expert inquiries and validation sessions with institutional partners, as well as the fact-finding field visit to selected regions, sample survey distributed among professionals dealing with regional development and a workshop with civil society representatives.

1.1.3 Priority areas for support/problem analysis

At the heart of the IRDA programme are the progressive establishment of a demand-driven extension system and a network of rural services in general, reaching – over time – an increasingly large number of farmers. Around this core stream of support addressing the gradual setting-up of the network of advisory services, parallel assistance is to go to institutional capacity in running business information systems and rural development programming. To complement and enhance the effectiveness of this support, targeted

⁷ MEI is also the National Coordinator of EU Assistance programmes and has a major role in the overall coordination and monitoring of Twinning/TAIEX/SIGMA/TA projects.

⁸ These shall be included in the programme implementation on a consultative basis.

interventions are planned to boost the process of agricultural connections matched with awareness campaigns, outreach, investment promotion, and business incubation/support in selected regions.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Insufficient capacity of the Institutions in charge of the programme, both at central and regional level.	M	Capacity development measures aiming at improving regional development planning/implementation and coordination capacities of the two Ministries involved and their regional offices.
No coherent approach towards regional development, linking micro, meso and macro support in an integrated manner	M	The programme has been designed in a holistic manner integrating the different levels and areas and allowing for cross-fertilisation of innovative community led approaches that can feed into the Government led support equally foreseen under the programme. This integrated approach has to be closely followed in the implementation phase.
Inadequate coordination between different stakeholders involved in data collection and analysis for rural business information system	M	Ensure involvement of all stakeholders in the programme design and implementation (including participation of the private sector, civil society organizations and social partners).
Inability of the beneficiary to ensure sustainability of AAP 2015	M	Prior to the programme, the Government has taken certain commitments, such as the regional branch expansion by the Ministry of Agriculture that will ensure sustainability of the IRDA interventions. The programme will further establish a Monitoring Group, including MoEI and MoA, responsible to adopt additional sustainability measures. Specific indicators and requirements for analytical tools will be put ahead of the support projects to evaluate their input to guarantee sustainability of AAP 2015 results already at the time of the product delivery (checklists, minimum administrative arrangements, legislative steps, human resources, hardware maintenance etc.).
Implementation of civil society projects difficult due to increasingly	M	Dialogue with the Government jointly with other development partners and international organizations to ensure that NGO financing by EU and other development

restrictive legal framework and/or the absence of secondary legislation leading to a de facto suspension of registration of new NGO grants		partners remains possible.
Assumptions:		
<p>The programme assumes that the Government of Azerbaijan remains committed to its overall reform path in reducing regional economic disparities and developing the non-oil sector. Specifically, the envisaged priority areas of work, such as "cooperatives", "agricultural advisory services", "e-agriculture" as targeted in two recent Presidential Decrees and at the heart of the draft Agriculture Strategy 2015-2020.</p> <p>It is assumed that the Government continues its policy to ensure macroeconomic stability.</p>		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Experience with regional and rural development highlights the importance of ensuring an integrated approach, linking micro and meso levels through the development of capacity of intermediary organisations. Introduction of technology driven input to agriculture and rural economy has to be accompanied by adequate transfer of embedded know-how in particular for the workforce. Advisory services set up by Non-Governmental Organisations (NGOs) – including through EU funding – have proven to achieve results but often lack sustainability and continuity as they are mostly decoupled from a concrete input, product or service and in general they have no constant sourcing of real-time business related information. Conversely, non-state actors have proven to possess a valid potential in exercising animation and community supported integration. By mixing bottom-up (community led work through NGOs) and top-down support through the progressive establishment of a network of advisory services facilitated by the Ministry of Agriculture this issue has been taken into account in the design of this programme.

However, the sustainability of advisory services in rural business does not depend solely on the readiness of the disadvantaged actors to engage financially in the absorption of the know-how, as the experience of the World Bank's project on advisory services evidently confirms. The lesson learnt is the need for a data oriented public-private partnership through a wide range of information sharing, i.e. the focus has to be shifted from the provision of advisory services through an “ad hoc” structure to a system with many actors where the role of the public is to facilitate exchanges.

Recent experience as well as the consultation process of the Action has shown that a dominant stakeholder's perception regarding urbanization and disparities among regions is to present it in negative terms. The focus on urbanization is stressed in the opposite to regional development. However, little attention has been paid to the evident fact that a growing urban community is the main investor to regional entrepreneurship. Thus, outreach oriented

awareness campaigns targeting urban investment circles with ag-food promotion could be the main missing element in recent projects struggling to achieve vertical integration across sectors and value chains.

Regional development work in several new EU Member States has demonstrated the catalytic effect of targeted campaigns aimed at enhancing awareness and subsequent willingness of consumers to pay a premium price for local and regional quality produce. This in turn can provide a good possible trigger for the socio-economic development of the regions, stimulating for instance tourism and further investment in the sector. The latter lesson translates into the issue of business incubation and acceleration. Involving all stakeholders is the key for the sustained success of regional development initiatives.

Lessons learnt from the implementation of the European Neighbourhood Program for Agriculture and Rural Development (ENPARD) in Georgia and Armenia will also be taken into due account.

3.2 Complementarity, synergy and donor coordination

The foreseen programme will complement past, ongoing and planned EU support interventions under Annual Action programmes (AAPs): 2009 (Agricultural and Rural Development Support Programme), 2011 (Regional Development Support Programme), 2012 (Pilot Regional Development Programme), 2013 (Support to Regional and Rural Development in Azerbaijan), and 2014 (Education Reform Support Programme), respectively. In terms of sequencing, the activities implemented under the AAP 2009, AAP 2011 and under the Non State Actors/Civil Society Facility will be completed by the time AAP 2015 operations will start, while activities under AAP 2012 and 2013 will be half way in their implementation. Therefore, the lessons learned from these programmes will be fully taken into account during the inception phase and the implementation of the proposed programme.

In addition to AAP 2015 being sequenced to previous interventions in factor of time, IRDA builds on the work and experience of the past and on-going assistance. In particular, the recent EU support towards setting-up of the framework for EAIS (e-agriculture information system⁹) integrating key agricultural data between different institutions under AAPs 2009 and 2011 constitutes the foundation for the envisaged activity widening the scope of EAIS into a rural business information system. EU's support to the improvement of Government of Azerbaijan's policy on food safety (under AAP 2009) has built a firm ground for prioritising the IRDA's focus on advisory services around the cross-cutting issue of good agricultural practices and environmental conditions. Assistance to MoEI's capacity on developing infrastructure oriented regional programmes (together with enhanced local and regional planning) foreseen under AAP 2013 will pave the way for IRDA's support towards better rural development programming. Finally, the technical assistance to Sector Policy Support Programme Coordination in Azerbaijan (TA to SPSP under AAP 2008) containing the support to the establishment of business incubators allows for IRDA to focus on increasing the training

⁹ Approved by Order No 408 of 30 December 2014 of the Cabinet of Ministers of the Republic of Azerbaijan on approval of the rules on use of E-Agriculture Information System.

capacity of the incubators in a more profiled and oriented way, i.e. to ag-food related start-ups via acceleration activities.

In the field of rural and regional development, the most relevant donor¹⁰ activity is the one of the World Bank targeting agribusiness value chain development and financial services to agribusiness with its Agricultural Competitiveness Improvement Project (ACIP). Gesellschaft fuer Internationale Zusammenarbeit (GIZ) is also involved in regional development mainly in the area of local self-governance reform (via a project for Private Sector Development in the South Caucasus), capacity building of local authorities and participatory land-use planning (which links to EU's support to e-agriculture process) as well as in private sector development in the non-oil sector covering the agro-food processing industry and related services. In the provisional perspective of 2015-2018, GIZ intends to support the development of vocational schools for a limited number of prioritised value chains, which would work complementary to IRDA's focus on the country-wide network of advisory services. The European Bank for Reconstruction and Development (EBRD) has recently been launching the Azerbaijan Agricultural Finance Facility (AzAFF) to support the current drive to develop agriculture in the country. That would complement the IRDA's orientation on the ag-food business development. IRDA's target of agricultural connections is partly covered by Switzerland's Agency for Development and Cooperation (SDC) together with State Secretariat for Economic Affairs (SECO), which focus on enhancing economic development. Finally, the rural development programming capacity support under IRDA would form a higher layer of the International Fund for Agricultural Development (IFAD)'s support for disadvantaged rural communities via an ongoing Integrated Rural Development Project¹¹.

3.3 Cross-cutting issues

Sustainability of regional development processes powered by advancing ag-food and rural businesses must have a firm basis in the management of natural resources, in particular land and water. For this reason, as a cross-cutting issue of the Action, environmental protection links all elements of the envisaged assistance. Environment protection, in particular the sustainable use of natural resources, is strongly dependent upon the active presence of farmers especially in vulnerable areas. Care and tending of small farmers is key to environmental protection. For this reason the development of local agricultural systems is important to realise economic development in a frame of environmental protection. *Climate change* issues are to be addressed in the conditionality package of the rural development programming based on good agricultural practices to be established by the Ministry of Agriculture (result 2), in particular as regards water management, livestock management, green cover, use of fertilizers, forest management and energy uses.

The envisaged interventions will prioritise the rural and ag-food element of regional development, as the local food economy provides a good possible trigger for the socio-

¹⁰ The EU Delegation has been chairing the Agriculture and Rural Development Donor Group since 2013. It is also a member of the private sector and trade donor group, chaired by SECO.

¹¹ The IFAD's project targets rehabilitation of irrigation, general agricultural development and agricultural finance in selected rayons (regions).

economic development of the regions. At the same time, it has the integrative potential as the scope of actors up and across the value chains is very wide, which can bring positive effects in terms of mobilisation of communities.

In terms of innovation, both at the stage of institutionally oriented activities, as well as business development services, the Action will heavily support innovation and technology. The rural business information system will advance the way public data is collected, stored and streamed to the sector.

The gender factor will be horizontally addressed at all layers of programme implementation, both at formulation of eligibility criteria and in the scope of projected assistance. In particular, the role of rural women as bridge for know-how, financial literacy and collaborative approach will be taken into account, as this can be a valid point in the process of animation (an important element in building up of advisory services network). Rural women that are facing disproportionately high unemployment are particularly targeted by IRDA.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

Overall objective

The overall objective is to support Government efforts in the diversification of the economy while promoting a balanced and inclusive growth, decrease regional disparities and improve rural livelihoods.

Specific objectives

The specific objectives are i) to contribute to business development, investment promotion and employment generation across economic regions of Azerbaijan and ii) to raise rural livelihoods and quality of life in rural areas.

Results

The action aims to achieve the following results:

- Result 1: Integrated rural business information system established and operational.
- Result 2: Improved system for rural development support targeted both at rural microenterprises and Small and Medium- Sized Enterprises (SMEs) as well as small and mid-sized family farms.
- Result 3: Network of agricultural advisory services system progressively introduced, focused on agricultural connections and good agricultural practices.
- Result 4: Improved outreach and local food promotion through investment support and consumer education.
- Result 5: Improved support for entrepreneurial development in rural areas.

4.2 Main activities

The project will be structured around five sets of activities that can be largely grouped into two components. The first component will be working on improving the enabling environment for rural SMEs and mid-sized family farms (R1&2), the second component will focus on the provision of complementary business support, investment promotion, outreach and demand creation (R3-5).

Result 1: Integrated rural business information system established and operational.

Activities will consist of assisting both the MoEI and MoA's capacity in market related data collection, processing and open-sourcing under the overall framework of the rural business information system. It will help develop skills in carrying out the mapping of agricultural production potential, in-season supply inventory and gap identification, land use and land features stocktaking, mapping marketing channels and investment potential, outlet structure, geo-structure of supply chain stages and actors, market entry channels, structure of supply-side sources and consumption, industry directories, farmer profiles and regional specialisation, farm locations, workforce availability and all other possible public data of some identified used for business, including data at the disposal of research institutes, inspections and public services. Assistance will target a proper utilisation of available technology comprising information systems of all data related to rural business and regional ag-food economy.

Result 2: Improved system for rural development support targeted both at rural microenterprises and SMEs as well as small and mid-sized family farms.

Activities will be oriented to supporting the Ministry of Agriculture in the transformation of the currently input/area based agricultural subsidies towards WTO compatible programming, formulation and running of integrated rural support measures (including administration and controls) according to EU best practices targeting both investment related measures as well as area-related support and technical assistance to the ag-food sector.

Result 3: Network of agricultural advisory services system progressively introduced focused on agricultural connections and good agricultural practices.

Activities encompass assistance to the MoA in designing, establishing, managing and further developing a regionally settled farm advisory system oriented at good agricultural practices (GAP). It will do so by progressively establishing: state-wide network of advisory services¹² (incl. accreditation systems); codes of good agricultural practices with a particular focus on climate change adaptive and environmentally-friendly production technologies and sets of statutory and other legal and administrative requirements (in particular on land use, pasture management) for area aid beneficiaries with incorporation to agricultural policy schemes as controlled baselines; first-on-farm advice delivery methodologies, guidelines and instructions for associated agents; knowledge exchange facilitation (peer-to-peer, demo-farming, people-based extension etc.).

¹² The Ministry of Agriculture is currently establishing a system of 52 regional offices and 8 regional advisory centres under the Agrarian Science Institute.

Assistance (through training and educating rural business managers) in mobilizing, attracting and accelerating the transfer of ag-food technology and modern business advisory services is equally complemented by delivering to the actors of the advisory services network with supportive toolkits and technical assistance in ag-food business connections and collaborative integration models, in areas such as: cooperatives, farm groups and producer organisations; community supported agriculture (CSAs), food hubs, farmers markets etc.; agricultural clusters; buying clubs, whole-sharing, land-sharing; supply chain platforms and distribution networks; vendor streamlined management of orders; first mile aggregation (pick, pack, ship list management); last mile distribution (“*click&collect*”); on farm processing (for preservation, for convenience, for fresh farm-to-doorstep or farm stand deliveries etc.); direct sales and e-commerce; financial, legal and business planning services for collaborative entrepreneurial undertakings (in particular: go-to-market strategies; pricing policies; product and service description; customer acquisition plans; customer targeting etc.).

Result 4: Improved outreach and local food promotion through investment support and consumer education.

There is a huge unexploited potential for better branding and marketing of local food heritage. Experience elsewhere has shown the high catalytic effect targeted awareness campaigns can have at the willingness of consumers to pay a premium price for local and regional quality produce, stimulating in turn tourism and further investment. Activities in selected regions will contain such catalytic support designed to boost a variety of initiatives undertaken by business associations aimed at promoting positive investment climate in the local ag-food system through: awareness campaigns of local food heritage and regional identity (eat local, buy local actions); nutrition and healthy food oriented campaigns embedded and based on local quality produce aiming to increase better food procurement policies among institutions, urban businesses and educational premises (farm-to-school programmes; corporate food policies); social activities targeting culture of business communication and ethics of cooperation (small farm foothold in urban grocery establishments); gender-oriented campaigns targeting issues of rural women involvement in local food heritage; food-tech events attracting young entrepreneurs to develop business models focused on local ag-food systems (e.g. “foodhackathons” and venture disrupts); development of local food guides aligned with touristic services portfolio (local farm tours, rural slow food); development of culinary centres and food showrooms with recipe testing sessions etc.; direct-marketing initiatives around rural heritage, local brands, quality labels and biodiversity resources.

Result 5: Improved support for entrepreneurial development in rural areas.

Lastly, supporting activities will be carried out to existing and newly established regional incubators to develop skills in fostering: ag-food business mentor involvement and financial engagement of sponsors (urban mentoring); start-up acceleration programme and readiness achievement for launch, investment and seed funding, scale-up through user growth and fundraising for further development; product prototyping and market validation; customer discovery strategies; mediation and arbitration services (fair dealing practices and standards); founder communities and business clubs; one-on-one coaching services; supporting private incubation services.

4.3 Intervention logic

The progressive establishment of a network of agriculture advisory services (result 3) forms the core support of the IRDA program. It will be implemented through a mix of technical assistance and grants allowing to complement the MoA facilitated network of advisory services to benefit from community driven experiences and best practices. Supplementing and further strengthening the effectiveness of this core stream of support comes through the provision of targeted institutional capacity development in running business information systems (result 1) and rural development programming (result 3) providing the means (in terms of financial and information needs) to strengthen rural development in the country. Finally, targeted interventions to boost the process of agricultural connections matched with awareness campaigns, outreach, investment promotion (result 4), and business incubation/support in selected regions (result 5) are to further increase the overall coherence and effectiveness of the intervention.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Grant: call for proposals for a twinning project on the comprehensive management system, administrative procedures and controls including programming and formulation of rural development support measures (direct management).

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

The twinning call for proposals modality will be used for implementing part of the activities foreseen under Result 2, in particular to produce approximated and simplified management modes for rural support measures. The field of intervention for this grant is wide and covers comprehensive capacity building to the Ministry of Agriculture in coordinating a variety of rural support measures (i.e. modernisation of farms; transfer of knowledge; quality schemes; producer groups; areas facing natural constraints; agri-environment-climate; restoring agricultural potential).

In line with Article 4(10)(b) of Regulation (EU) No 236/2014, participation in twinning calls for proposals is limited to public administrations of the EU Member States, being understood as central or regional authorities of a Member State as well as their bodies and administrative structures and private law bodies entrusted with a public service mission under their control provided they act for the account and under the responsibility of that Member State.

(c) Essential selection and award criteria

The essential selection criterion is the operational capacity of the applicant.

The essential award criteria are the technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.

(d) Maximum rate of co-financing

The rate of co-financing for twinning grant contracts is 100%¹³.

(e) Indicative timing to launch the call

T1 2017.

(f) Use of lump sums/flat rates/unit costs

Twinning contracts include a system of unit costs and flat rate financing, defined in the Twinning Manual, for the reimbursement of the public sector expertise provided by the selected Member States administrations. The use of this system of unit costs and flat rate financing, which exceeds the amount of EUR 60 000 per beneficiary of a twinning contract, is subject to the adoption of a separate, horizontal Commission decision.

5.3.2 Grants: call for proposals (Agricultural connections and outreach and demand creation through investment promotion and consumer education; direct management).

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

Objective of the call for proposal under Result 3 and 4 will be to strengthen the capacity of civil society and pro-entrepreneurial circles and business associations in launching a variety of initiatives undertaken to promote positive investment climate and urban mentoring in local ag-food systems and broadly in ag-food regional economy in Azerbaijan, including outreach and awareness campaigns. A call for proposals is equally foreseen to support community driven agricultural connections and advisory services.

(b) Eligibility conditions

The call will be opened to International Organisations, Member States agencies, specialized NGOs, community based organisations and business associations.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 800 000 and the grants may be awarded to sole

¹³ As provided for in the Twinning Manual.

beneficiaries and to consortia of beneficiaries (coordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is 24 months.

(c) Essential selection and award criteria

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for grants under this call is 80%.

In accordance with Article 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100%. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the call: T2 2017.

5.3.3 Procurement (direct management)

Subject	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Rural business information system (result 1)	Services	1	T3 2016
Rural development support measures (result 2) Rural business support (Result 5)	Services	1	T1 2017
Advisory services, agricultural connections and collaborative business models (Results 3 and 4)	Services	1	T1 2017
Evaluation/visibility/audit	Services	2	2018-2021

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other

duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

Indicative budget for Integrated Regional Development of Azerbaijan	EU contribution in EUR	Indicative third party contribution in EUR
Procurement (direct management) (results 1, 2, 3, 4, 5)	6 200 000	N.A.
Call for Proposals/Twinning (direct management) (result 2)	2 500 000	N.A.
Call for Proposals/grants (direct management) (results 3 and 4)	4 000 000	1 000 000
Evaluation and audit	200 000	N.A.
Communication and visibility	100 000	N.A.
Contingencies	500 000	N.A.
Total:	13 500 000	1 000 000

5.6 Organisational set-up and responsibilities

A Steering Committee (SC) will be established in order to steer and monitor implementation of the programme. It will be co-chaired by the MoEI and MoA with the participation of other national and local relevant stakeholders. Exact composition will be decided upon the start of the programme implementation together with the co-chairs.

Coordination between the two key Government agencies involved in regional/rural development (MoEI and MoA) will be encouraged throughout the implementation of the programme. This will for instance be operationalised through the creation of dedicated thematic working and monitoring groups with participation of these two Ministries, which will advise on key aspects of the programme and its implementation. Such inter-ministerial working groups would allow for an effective cross-fertilisation of ideas (ensuring for instance that lessons learned through community-based NGO initiatives will be embedded in larger Government programmes and sufficiently enabling policies) and increased coherence in thinking on the issues tackled by IRDA. It would also provide further safeguards that sustainability of the IRDA programme is adequately ensured. Joint monitoring missions to the regions with participation of these two key ministries will finally also be encouraged.

The programme will be monitored according to standard procedures based on regular assessment of progress and delivery of specified programme results and the extent to which the programme objectives have been achieved. Key objectively verifiable indicators (OVIs) will be defined for this purpose. The baseline is provided by official statistics and by the status-report which was commissioned by the EU Delegation for the preparation of the AAP 2015.

MoEI and MoA will be jointly in charge of monitoring and steering all components supported under the programme.¹⁴

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logical frame matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, an ex-post evaluation will be carried out for this action or its components via independent consultants.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action addresses a variety of innovative interventions based on smart specialisation concept of a selected area/sector of regional development.

The Commission shall inform the implementing partner at least one month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

¹⁴ Before the start of the programme implementation, both Ministries will be jointly involved in other EU-funded projects that will help to facilitate the coordination and division of labour related to regional and rural development.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above. A dedicated resource envelope will be set aside to put in place adequate visibility measures, such as the launching of an IRDA website, development of newsletters at programme level, but also through concerted communication actions for each component of the programme.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX 1 - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for listing the activities as well as new columns for intermediary targets (milestones) when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

INTEGRATED REGIONAL DEVELOPMENT OF AZERBAIJAN						
Objectives	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	The overall objective is to support Government efforts in the diversification of the economy while promoting a balanced and inclusive growth, decrease regional disparities and improve rural livelihoods.	Non-oil sector contribution to GDP Disparity ratio between capital and regions on output production per capita in the non-oil sector Disparity ratio between capital and regions on income per capita Agricultural productivity (as measured by value added per agricultural worker)	61.5% (2014) 3.6 times (2013) 4.1 times (2013) 2970 AZN (2013)	65% (2020) 3 times (2020) 3.5 times (2020) 3500 AZN (2020)	AZ statistical records	
Specific objective: Outcome	The specific objectives are to contribute to business development, investment promotion and employment generation across economic regions and to raise rural livelihoods and quality of life in rural areas.	Percentage of population below national poverty line. Percentage of population below national poverty line in regions, in capital, in other urban and rural areas (disaggregated by gender) Per Capita income per month in the regions. Youth unemployment rate in	5% (2014) to be determined at the start of implementation 193 AZN (2013)	4% (2020) to be determined at the start of implementation 260 AZN (2020)	AZ statistical records	Continued AZ commitment to economic diversification. Continued macro-economic stability AZ remains committed to its agenda on socio-economic development of the regions, including support to the agricultural sector.

		regions (15-24 year-old) Unemployment rate Creation of permanent new work places in regions	Max. rate in regions 18.7% (17.6-male; 22.2-female) (2013) 4.9% (male-4%; female-5.9%) (2014) approx. 53000 (2013)	Max. rate in regions 14% (2020) 4% (male-3% & female 5%) (2020) approx. 70000 (2020)			
Outputs Results	Description	Objective indicators	verifiable	Baselines (year)	Targets (year)	Sources of verification	Assumptions
Result 1	Integrated rural business information system established and operational	Access to publicly held market data on land use, production potential, farms and business operators, wholesale and retail prices (real-time).		system not in place	Integrated rural business information system established and operational by 2020	EAIS monitoring reports. MoA and MoEI IT structures.	E-agriculture system implemented and policy readiness to develop it further. Open data approach of the benefiting institutions. High level of coordination between central public stakeholders in market data sharing.
Result 2	Improved system for rural development support targeted both at rural microenterprises and SMEs as well as small and mid-sized family farms.	Share of rural development expenditure under new instruments in total agriculture policy portfolio. Share of Entrepreneurship Fund (ANFES) loans allocated to agricultural production and processing Share of small and medium size loans in ANFES budget		0% (2014) 56% (2014) 24% (2014)	10% (2020) 60% (2020) 40% (2020)	MoEI and ANFES annual reports.	Adoption of the MoA's Agricultural Strategy <u>and</u> of the Action Plan for its implementation by 2016. Willingness of the AZ to carry out reallocations in public expenditure towards rural development measures.
Result 3	Network of agricultural advisory services system	Number of farms applying good agricultural practices		NA (no farms required to apply	Conditionality to follow basic GAP	AZ Statistics. EAIS reports.	Administrative procedures and institutional arrangements for

	<p>progressively introduced, with agricultural connections and good agricultural practice.</p>	<p>(GAP) or required to follow it under public scheme. Number of farmers benefiting from state support with access to GAP-focused advisory services per year. Rank in GII (Global Innovation Index) Technology gap and farm innovative performance (specific proxy index to be produced on the basis of farm survey data, e-agriculture system and farm census). Number of cooperative agricultural enterprises. Margins imposed by middlemen on final product. Number/share of family farms participating to any collaborative business operations or subject to farm contracting (farmer-to-farmer, b2b, CSAs etc.)</p>	<p>GAP in return of public support). 10% (2014)</p> <p>101 in rank (2014)</p> <p>to be determined at the start of implementation</p> <p>72 cooperatives (2013) Up to 400%</p> <p>Less than 1% (2014)</p>	<p>rules introduced by 2018. 25% (2020)</p> <p>Higher rank by 2020 Target (to be set at the start of implementation by proxy index)</p> <p>200 collaborative businesses (2020) Reduction below 400% More than approx. 5% of family farms integrated by 2020.</p>	<p>FAO, WB, WEF reports. Project reports. Agricultural census. FAO reports on agricultural development in EP countries.</p>	<p>setting up the advisory services network in place at the start of the project. Sufficient resources (finance, human, technical framework) put in place by AZ for advisory services by 2017. Policy readiness to introduce minimum conditionality for beneficiaries of subsidy system to follow basic standards of good agricultural practice. Administrative procedures and institutional arrangements in place at the start of the project to facilitate the development of collaborative processes, i.a. through the adoption of legislative framework for agricultural cooperatives.</p>
<p>Result 4</p>	<p>Improved outreach and local food promotion through investment support and consumer education.</p>	<p>Total household expenses spent on domestic food per month per capita and percentage of total consumption expenses per capita targeted at local food.</p>	<p>Approx. 65 AZN out of totally spent 93.1 - approx. 70% (2013 for urban households)* *extrapolated from share of food imported N/A (2014)</p>	<p>Up to 80% of urban monthly food expenses devoted to locally supplied food (2020)</p> <p>At least 3 "buy</p>	<p>AZ statistical data (household budget surveys)*</p> <p>Project reports and</p>	<p>Open public data approach in building rural business information system approved. Administrative framework (incl. responsibilities, competence sharing, role assignment) for the network of advisory services in place. Continuous supportive AZ policy</p>

		No of "buy local" initiatives or local food promotion campaigns.		local initiatives" implemented in selected regions by 2019	surveys.	towards agricultural sector.
Result 5	Improved support for entrepreneurial development in rural areas.	No of business start-ups receiving services or bootstrapped by incubators.	5 entrepreneurs per annum (2014)	50 start-ups serviced per annum (2019)	Data of regional department of MoEI. Project reports.	Both the portfolio and the scope of services delivered by the functioning incubators open to incorporate private business and local stakeholders' needs. Readiness for specialization to develop sector profiled accelerating services for the ag-food sector.

Glossary:

AZ	Government of Azerbaijan
ANFES	Azerbaijan National Fund for Entrepreneurship
RDP	Rural Development Programme
CSA	Community Supported Agriculture
B2B	Business-to-Business
BBTC	Baku Business Training Centre
TA	Technical Assistance
N/A	Not applicable
MoEI	Ministry of Economy and Industry
GAP	Good Agricultural Practice
WEF	World Economic Forum
EAIS	E-Agriculture Information System