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**Draft country programme document for the Republic of Azerbaijan
(2011-2015)**

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I. Situation analysis

1. Azerbaijan, with an estimated population of 8.6 million in 2007, is divided into 66 regions, 13 urban districts and the Nakhchivan Autonomous Republic. It is rich in natural resources, most notably oil and natural gas. Economically, the country suffered a severe post-independence crisis, caused partly by the still unresolved Nagorno-Karabakh conflict, which displaced a huge number of people (one-tenth of the country's population are IDPs or refugees) and left a portion of the territory occupied.¹ The crisis eventually gave way to consistent high growth between 2005 and 2008, largely propelled by the exploitation of the oil and natural gas reserves. This strong growth allowed major investments in infrastructure, and a steep decline in poverty rates from 46.7 percent in 2002 to 13.2 per cent in 2008. Per capita income soared by a factor of 17 between 1995 and 2008, and currently stands at \$5,404 per annum, leading Azerbaijan to be ranked as a lower middle income country. Important socio-economic challenges remain, however, since the growth has had limited impact on improving income generating opportunities for the large sections of the population employed outside of the oil sector. Indeed, there are increasingly visible inequalities in living standards and opportunities between those regions and population groups benefiting from the oil boom and the rest of the country. There is consensus among stakeholders that long term sustainable and inclusive growth requires broader-based growth and a more diverse export profile, as the recent decrease in oil prices on the international market linked to the global economic crisis has emphasized.

2. The high levels of economic growth in recent years have contributed to considerable improvement in many key social indicators, though some still remain below the average for lower middle income countries, for example in maternal health and child nutrition. Even though large amounts have been spent on improving the social infrastructure, long term improvements in service-delivery quality require the continuation of institutional reforms and capacity development of organizations and individuals. Improvements in governance will also affect the ways in which the Government regulates the private sector towards creating better investment confidence and enables civil society to participate in policy formulation and implementation, key factors in poverty reduction.

3. Despite the existence of a sound legal framework providing for gender equality, there is still considerable gender inequality in the country, due to a combination of factors, including the Soviet inheritance, the social and economic challenges of the transition period, and traditional gender stereotypes. As outlined in the 2007 Azerbaijan National Human Development Report on Gender Attitudes, and reconfirmed in the 2009 Concluding Observations of the Committee on the Elimination of Discrimination against Women on the fourth periodic report for Azerbaijan, women in Azerbaijan are disadvantaged in their access to quality education, healthcare services, employment, participation in political processes and government decision-making. Violence against women has been recognized as a major issue, stemming from the economic dependence of women on men, deficiencies in the national legislation enacted to protect the fundamental rights of women, and lack of preventive measures for victims.

4. Azerbaijan faces a number of environmental challenges to its sustainable development and to the health of its population. Many of these challenges are linked to economic activities based on natural resources including: historic contamination

¹ At present, no final settlement to the conflict over Nagorno-Karabakh has been achieved. However, should such a settlement be reached within the time frame of the UNDAF 2011-2015, much of the focus of the work of UN agencies would switch to supporting the complex processes of voluntary return of internally displaced people.

of soils from oil and other substances; air pollution; deforestation and forest degradation; lack of safe drinking water and sanitation; pollution of the Caspian Sea and other water reservoirs; high level of green house gas emissions; soil erosion and land degradation; and poor solid waste management. Additional challenges are posed by natural disasters, mainly drought, flash floods and mudslides. The location of Azerbaijan in a seismically active area puts the country at the risk of oil spills and contamination, as well as loss of life and infrastructure. Growing climate volatility increases the urgency for disaster preparedness to reduce vulnerability and promote adaptation. The recently completed Second National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) from Azerbaijan shows evidence of the impact of climate change on the country and the need for adaptation and mitigation measures.

II. Past cooperation and lessons learned

5. Important results achieved under the previous UNDP country programme for Azerbaijan (2005-2010) include:

a. *Translating oil related revenues into investment and employment growth in non-oil sectors of the economy.* UNDP provided policy advice to the Government on how best to use oil revenues to promote employment and economic growth in non-oil sectors. UNDP also supported the formulation of a new customs code in line with European Union standards, and engaged in policy level advocacy through National Human Development Reports on Gender Attitudes (2007) and Civil Service Reform (2010), as well as other publications on the development of non-oil sectors. With assistance from UNDP, the Government conducted the second nationwide, gender-disaggregated Labour Force Survey for Azerbaijan in 2007. Direct support to the development of the non-oil sectors included strengthening the tourism industry and enhancing the export capacity of the domestic non-oil private sector. In addition, UNDP helped strengthen the capacity of national non-governmental organizations (NGOs) based outside Baku to manage their activities and achieve development results. On environment, UNDP provided technical assistance for the formulation of the first and second National Communications to the UNFCCC from Azerbaijan. It also helped lay the groundwork for access to the Millennium Development Goals Carbon Facility by signing a Memorandum of Understanding with the Government and supporting the Government in reviewing the Clean Development Mechanism projects. In addition, UNDP provided technical assistance for the development of alternative energies, the management of solid waste and sustainable land management.

b. *Improving efficiency, transparency and accountability in the public sector.* UNDP assistance for expanding the use of information and communication technologies for development included: the establishment of a fibre-optic network connecting all regions of Azerbaijan (to be completed at the end of 2010) which will serve multiple purposes, including facilitating the delivery of public services; the creation of a nation-wide electronic system granting pensioners direct and immediate access to their pension accounts and benefits; the establishment of the State Register of the Population (ongoing, to be completed in mid 2012); the automation of customs-related operations; and the establishment of a communications network linking the Ministry of Foreign Affairs with its diplomatic missions abroad. UNDP has also supported capacity development of the new Civil Service Commission under the President of Azerbaijan since its establishment in 2005. As its foremost achievement, this helped introduce a merit-based system of recruitment, and the mainstreaming of gender into the civil service. It is hoped that over time the latter effort will lead to a higher share of women in the civil service.

6. Lessons learned in 2005-2010: (a) Employing the national execution modality in almost all development projects strengthened national ownership of the projects and the sustainability of their outcomes. (b) Between 2005 and 2010, the proportion of government cost sharing as part of the overall UNDP programme resources was over 53 per cent. The continued interest from government counterparts in expanding cooperation, and their willingness to contribute throughout the implementation period of the country programme reflects their perception of UNDP as a trusted partner and source of expertise and impartial advice, and not least a developer of capacity. With no foreseeable increase in the regular funding and with donor interest in Azerbaijan waning as the country's economy takes off, mobilization of government resources will remain critical in the future. (c) The previous UNDP country programme helped the country expand its participation in South-South cooperation. Future activities should continue to encourage such cooperation.

7. While the new country programme should be strategic, some degree of flexibility must be maintained so as to adapt quickly to the rapidly changing development context of Azerbaijan, and accommodate emerging national and/or global priorities. There is a need to sharpen the focus on results-based management, including reporting, monitoring and evaluation, and to mainstream gender more systematically into UNDP projects.

III. Proposed programme

8. The new UNDP country programme for 2011-2015 is directly based on the new United Nations Development Assistance Framework (UNDAF) for Azerbaijan (2011-2015). The UNDAF is itself aligned with the State Programme for Poverty Reduction and Sustainable Development (SPPRSD) for 2008-2015, which provides for achievement of the Millennium Development Goals.

9. The evaluation of the previous UNDAF (2005-2010) shows that in Azerbaijan, capacity development including in the area of data collection and analysis should be a major concern and should guide the interventions in the next UNDAF cycle 2011-2015. Therefore, the new country programme is centred on continued UNDP support to capacity development in order to achieve long-term and sustainable improvements in functional and technical capabilities at the organizational and individual levels in three areas:

a. *Economic development:* UNDP will focus on promoting economic diversification to increase work opportunities and reduce regional differences in living standards; and to ensure that all sections of the workforce, including disabled persons and women, by means of special projects targeting them, have access to the skills and resources required to improve their employment opportunities. Capacity development interventions will focus on supporting vocational training, private sector development and trade facilitation.

b. *Environmental sustainability:* UNDP will ensure that current and future patterns of economic growth do not impact negatively on ecosystems, biodiversity and human health, at the same time reducing the vulnerability of the poor to negative environmental impacts and to the consequences of mitigation measures. Interventions will aim at reducing dependence on outdated and resource-inefficient thermal power stations, in part through improved capacity to develop and introduce alternative and renewable energy sources. Support will be provided to improve the management of protected areas and ecosystems, including marine and mountain ecosystems; and to halt land degradation and the erosion of pastures.

c. *Effective governance*: UNDP will support the further development of strong, transparent and accountable public institutions, staffed by a professional civil service guided by appropriate laws. Interventions will focus on e-Governance and enhancing the capacity of state agencies and civil society to efficiently and transparently deliver social services. UNDP will also help develop national ownership and capacity in monitoring and reporting on progress in poverty reduction and Millennium Development Goal achievement.

10. UNDP offers comparative advantages in the above mentioned areas, drawing on its global knowledge base and best practices from past cooperation. Besides committing to systematically mainstream gender into all its interventions across the three priority areas, UNDP will engage with other United Nations organizations and the Government and take forward the 2009 final observations of the Committee on the Elimination of Discrimination against Women in the area of employment, and continue its efforts to mainstream gender into the civil service. In addition to Government cost-sharing, the resource mobilization strategy of UNDP will focus on the Global Environment Facility and pursue European Union budgetary support as well as World Bank loans to the Government of Azerbaijan in areas of UNDP competence.

IV. Programme management, monitoring and evaluation

11. To further strengthen national ownership, national implementation will be the preferred modality for the new programme. At their request, UNDP Azerbaijan will continue to provide support services to Government agencies implementing the projects. In a bid to harmonize and align United Nations assistance with national systems, UNDP is implementing the Harmonized Approach to Cash Transfers.

12. UNDP Azerbaijan will conduct monitoring and evaluation (M&E) at two levels. At project level, UNDP will engage different M&E tools to track progress toward project objectives and to assess to what extent these objectives contribute to developing national capacities. At programme level, UNDP will conduct one evaluation of each agency outcome to ensure their effective contribution to national development objectives and the Millennium Development Goals. The findings of UNDP outcome evaluations will inform the UNDAF annual reviews and evaluation.

Annex. Results and resources framework for the Republic of Azerbaijan (2011-2015)

National priority or goal (Millennium Development Goals and/or other International Conference Commitments): Sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector; Increasing income-generating opportunities and pulling substantial numbers of citizens out of poverty; Improving the environmental situation and ensuring sustainable environmental management; Continuing the systematic implementation of activities aimed at improving the living conditions of refugees and internally displaced people (IDPs). Intended UNDAF outcome #1: By 2015, non-oil development policies result in better economic status, decent work opportunities and a healthier environment in all regions and across all social groups.					
Programme component	Programme outcomes	Programme indicators, baselines and targets*	Programme outputs	Role of partners	Resources by goal \$
Economic development	1.1 National policies and institutions strengthened to increase private sector competitiveness, remove trade barriers, especially for exports, while reducing vulnerability of the economy and population to external shocks	Indicator: 1.1.1 Amount of foreign direct investments in non-oil sector Baseline: 2008- \$ 641.2 million Target: 25% increase Indicator : 1.1.2 Annual percentage increase in non-oil gross domestic product Baseline: 2009 - 3% Target: 10% Indicator: 1.1.3 Volume of non-oil sector exports Baseline: 2008 - \$47.756 billion Target: \$150 billion	1.1.1 International competitiveness of private enterprises in the non-oil sector is increased 1.1.2 Recommendations implemented from national assessment to identify trade development potential 1.1.3 Inter-agency, bilateral and regional cooperation enhanced between Azerbaijan, Georgia, European Union Member States and international stakeholders - to facilitate the movement of persons and goods across borders while maintaining secure borders	Government: data collection and analysis, policy development, implementation, monitoring, coordination and communication. International organizations: capacity development and support to implementation.	Regular resources: 974,750
					Other resources: 3,300,000
	1.2 National strategies, policies, capacity to address regional and gender disparities in work opportunities strengthened, with focus on increasing the ability of vulnerable groups to manage and mitigate risks	Indicator: 1.2.1 Labour force participation rate by urban/rural/ sex Baseline: 2008: 71.1% overall (urban men 71.5%, urban women 63.1%; rural men 79.8%, rural women 72.5%) Target: 85% Indicator: 1.1.2 Employment rate by urban/rural/ sex Baseline: 2008, 93.2% (urban men 91.2%, urban women 90.4%; rural men 95%, rural women 96.5%) Target: 96%	1.2.1 Ministry of Labour and Social Protection of the Population has vocational education and training programmes to ensure qualitative improvement of the skills of the labour force, and in particular disabled, to meet the demands of the labour market 1.2.2 Access to employment and employability of women in selected rural areas improved. Level and factors contributing to economic violence among women diminished	Government, data collection and analysis, advocacy, policy development, institutional set-up, coordination. Regional and local authorities: coordination and facilitation at the regional and local level. International organizations and international financing institutions: capacity development.	Regular resources: 1,169,750
					Other resources: 5,100,000
Environmental sustainability	1.3 Relevant national strategies, policies, and capacities strengthened to address environmental degradation, promote a green economy, reduce vulnerability to climate change	Indicator: 1.3.1: Carbon intensity of economy (green house gas emissions per unit of output) Baseline: 2008: 849.3 tons CO2 per \$ 1 million Target: Reduce by at least 2% Indicator: 1.3. 2: Percentage of total country area covered by Protected Area network Baseline: 2008: 9% Target: 11%	1.3.1.Ministry of Industry & Energy and Azerenerji have capacity to remove barriers to the development of alternative and renewable energy 1.3.2. Strategies to increase renewable energy from biomass developed/ implemented 1.3.3. Priority ecosystems/economic sectors vulnerable to climate change identified, strategies for improving their resilience developed 1.3.4 Size of marine and other ecosystems registered and managed as Protected Areas expanded 1.3.5 Pasture degradation in mountainous areas reduced through improved land management practices	Government: policy formulation, institutional set-up, advocacy, coordination and communication. Donors: capacity development.	Regular resources: 1,469,000
					Other resources: 8,300,000

			1.3.6 Improved water resources management and strengthened trans-boundary cooperation on this issue in the Kura-Aras River Basin		
National priority or goal (Millennium Development Goals and/or other International Conference Commitments): Continuing the process of institutional reform and improving good governance; promoting and protecting gender equality; continuing the systematic implementation of activities aimed at improving the living conditions of refugees and IDPs. Intended UNDAF outcome #3: By 2015, the State strengthens the system of governance together with the involvement of civil society and in compliance with its international commitments, with particular emphasis on vulnerable groups.					
Effective governance	3.1 By 2015 civil society, media and vulnerable groups enjoy an increased role in policy formulation and implementation processes	Indicator: 3.1.1 Annual qualitative assessment of advocacy skills of NGOs and media outlets Baseline: 4 (“NGO Sustainability Index” by USAID, “Freedom in the World” and “Freedom of the Press” reports by Freedom House, “Global Corruption Report” by Transparency International) Target: 5 (the above mentioned international agencies plus a national agency or civil society organisation (CSO), performing annual qualitative review of NGOs and press	3.1.1 CSOs and in particular rural NGOs have improved project management skills	NGOs: advocacy, implementation, coordination, monitoring, awareness raising	Regular resources: 400,000
					Other resources: 500,000
	3.2 Efficiency, accountability and transparency in public administration enhanced through capacity development of State entities, including gender sensitive approaches	Indicator: 3.2.1 The number of information technology innovations implemented contributing to increased transparency in public administration Baseline: 2009: 2 Target: 5 Indicator: 3.3.2: Share of women in civil service, by level Baseline: 2007: Administrative posts: 18%, Supplementary posts: 10% Target: Administrative posts: 30%; Supplementary posts: 50%	3.2.1 Capacity of the Azerbaijan National Agency for Mine Action to become an International Training Centre for De-mining Activities developed 3.2.2 System to monitor and report on SPPRSD is established in Ministry of Economic Development 3.2.3 Capacity of Civil Service Commission under the President of Azerbaijan for recruitment/ training/performance of civil servants improved, including through the establishment of a dedicated civil service training centre 3.2.4 Social insurance/ pension services enhanced through State Social Protection Fund capacity development, improved performance of automated management, and establishment of client service network 3.2.5 Centralized State Register of Population with capacity to produce gender-disaggregated data established 3.2.6 Capacity of Ministry of Communications and Information Technologies to provide support on data communication and transmission further strengthened	Government: policy formulation, advocacy, coordination, implementation and monitoring. International organizations: capacity development.	Regular resources: 3,999,000
					Other resources: 26,000,000
Additional country programme outputs outside of the UNDAF matrix:					
			Broad participation and active engagement in advocacy for the Millennium Development Goals among citizens/ the public and private sectors/Academia, generated through publication of two National Human Development Reports	Government, International organizations, International financing institutions, Private sector, Academia: advocacy, coordination, capacity development and monitoring	Regular resources: 500,000

*The United Nations country team in Azerbaijan will finalize the UNDAF monitoring and evaluation framework only by November 2010