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# **Country Partnership Strategy**

## **Republic of Azerbaijan**

**2012-2015**

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**Republic of Korea**

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# June 2012

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## Executive Summary

- (i) The Country Partnership Strategy (CPS) for Azerbaijan for 2011-2015 has been prepared under the principal objective of partnership between Korea and Azerbaijan, which aims to make a meaningful contribution to the acceleration of economic growth and sustainable development of Azerbaijan in line with its national development plans. It also details a framework for the expansion of the bilateral relationship through the further strengthening Korea-Azerbaijan partnership and cooperation. The CPS is prepared based upon mutual understanding and respect, and is aimed at enhancing development effectiveness by sharing with Azerbaijan Korea's development experiences and linking its comparative strengths to Azerbaijan's development needs.
- (ii) Azerbaijan has achieved remarkable success in its efforts at poverty reduction over the past decade, which has largely been attributed to its high economic growth rate, as well as having a social protection system targeting the most vulnerable. Azerbaijan has been on track to achieve most of the Millennium Development Goals (MDGs) within the last 15 years. Building on these achievements, Azerbaijan aims to further eradicate poverty through balanced and sustainable development, and to utilize robust economic growth to propel itself into the ranks of a stable higher middle-income country.
- (iii) Much of the rapid growth, however, has previously come from a large increase in oil and gas revenues, which are now likely to plateau over the coming decade. The global economic crisis and the fluctuation of oil prices in 2008 and 2009 have highlighted the need for a balanced growth through a diversified economy, market-based policies, and a strengthening of public services and systems. In this context, Korea's partnership over the period covered by this CPS seeks to support Azerbaijan in achieving its development agenda (as outlined in the State Program on Poverty Reduction and Sustainable Development: SPPRSD 2008-2015) to overcome the mentioned barriers and maximize the opportunities for the future development.
- (iv) Reflecting a wide range of factors such as in-depth assessment of Azerbaijan's current development challenges, its national development strategies and Korea's comparative strengths and expertise, the CPS proposes two priority areas of development cooperation which include (i) strengthening the economic base of the non-oil sector by improving water resources system and energy efficiency, and better business environment; and (ii) enhancing the productivity and effectiveness of the public sector by the digitalization of key public systems and services and through institutional capacity building.
- (v) Korea, as a member country of the Organization for Economic Co-operation and Development's Development Assistance Committee (OECD DAC), strives to comply with international norms in shaping its development partnership. Thus the strategy is guided by development effectiveness principles and anchored in strong planning procedures. Support is aligned with the priorities of the Azerbaijan's government, and coordinated with the approaches of other donors. Enhancing the result based approaches, the strategy has a strong accountability dimensions, with actions monitored and outcomes evaluated. Korea will make a concerted effort to integrate cross-cutting issues, such as gender equality and environmental sustainability, into the policy development process at the project initiation, formation and evaluation stages.

## **I. Introduction**

1. The Country Partnership Strategy (hereafter referred to as “CPS”) for the Republic of Azerbaijan (hereafter referred to as “Azerbaijan”) aims to provide the overall policy direction of the Republic of Korea (hereinafter referred to as “Korea”) in its development cooperation with regards to Azerbaijan. It outlines Korea's proposed partnership programs for its development cooperation during the period 2012-2015.

2. This CPS aims to make a meaningful contribution to the acceleration of economic growth and sustainable development of Azerbaijan in line with its National Development Plan (the State Program on Poverty Reduction and Sustainable Development: SPPRSD 2008-2015). It also details a framework for the expansion of the bilateral relationship through the further enhancement of Korea-Azerbaijan partnership and cooperation.

3. This CPS is founded on mutual understanding and respect, and aims to improve development effectiveness by linking Korea's development experience and comparative strengths to Azerbaijan’s development needs.

4. As a member country of the OECD DAC, Korea intends to fully integrate the good practices of international development cooperation into this Strategy. Through this CPS, Korea intends to enhance effectiveness and overcome fragmentation by strengthening the inter-linkage among various implementing organizations in Korea, while expanding cooperation with other development partners.

5. By defining the role and contribution of Korea’s ODA, this CPS will increase predictability while reducing administrative costs by delivering a systematic and coherent approach to ODA.

6. Given the continuing internal and external changes in and around Azerbaijan, this CPS will be constantly updated and modified through mutual discussions and agreement between the two governments of Korea and Azerbaijan.

## **II. Azerbaijan’s Development Status and Challenges**

7. Azerbaijan has achieved remarkable triumphs in its efforts at poverty reduction over the past decade, which has largely been attributed to its high economic growth rate, averaging more than 20 percent annually, as well as having a social protection system targeting vulnerable population. Azerbaijan is on track to achieve most of the Millennium Development Goals (MDGs) with, for example, a halving of its poverty ratio, the provision of universal access to primary education, and a reduction in its child mortality rate achieved over the last 15 years. Building on these achievements, Azerbaijan aims to further eradicate poverty through balanced and sustainable development, and to utilize robust economic growth to propel itself into the ranks of a stable higher middle-income country.

8. However, much of the rapid growth has previously come from a large increase in oil and gas revenues, which are now likely to plateau over the coming decade. The global economic crisis and the fluctuation of oil prices in 2008 and 2009 have highlighted the need for a balanced growth through diversified economy, market-based policies, and a strengthening of public services and systems. This CPS aims to support the Government of Azerbaijan in its placing of a greater emphasis on meeting these emerging needs and challenges.

9. The core principle of this CPS, therefore, will be to support Azerbaijan’s efforts in

overcoming barriers and maximizing opportunities by: the strengthening of non-oil sector industries, primarily through better infrastructure and improved business environment; and increasing the effectiveness and efficiency of public sector through digitalization of the public systems. In view of these goals, and in line with the national development plan of Azerbaijan (SPPRSD 2008-2015), Korea will target its efforts towards rapid and balanced growth, with an emphasis on the proposed strategic priorities. In delivering the partnership program, Korea will seek to work with experienced development partners and like-minded donors to harness collaboration and enhance development effectiveness.

### III. Korea's ODA to Azerbaijan

#### A. Overview

10. Korea has committed approximately US\$ 22 million of bilateral grants to Azerbaijan between 2007 and 2011. Compared to 2007 (US\$0.78 million), the volume of Korea's bilateral grants to Azerbaijan in 2011 has increased by approximately 14 times (US\$11.23 million). Particularly in 2011, the first concessional loan was approved, which is around US\$ 23 million. These increases in Korea's ODA, as detailed in Table 1, reflect the strengthened bilateral relationship between the two countries. The resources financed 8 projects, which were approved or implemented by KOICA and EDCF. As indicated in Table 3, Korea has funded grant projects mainly in industrial energy sector (77%) and governance sector (22%) which mainly includes the e-Government system.

**Table 1. Korea's ODA to Azerbaijan: 2007-2011**

(Unit: US\$ Mil.)

	2007	2008	2009	2010	2011	Total
Loans	-	-	-	-	23.23	23.23
Grants	0.78	3.87	1.67	4.07	11.23	21.62
Total	0.78	3.87	1.67	4.07	34.46	44.85

**Table 2. Types of Support: 2007-2011**

(Unit: US\$ Mil.)

Types	Projects	Trainee Invitation	Feasibility Studies	Others
Loans (by EDCF)	23.23 (1 project)	-	-	-
Grants (by KOICA)	12.3 (7 projects)	1.55 (224 trainees)	4.52 (5 studies)	0.36

**Table 3. Sectoral Priorities (% of total grant aids): 2007-2011**

	Education	Water/ Sanitation	Health	Environment	Governance (inc. ICT)	Industrial Energy	Agriculture	Total
US\$(mil.)	0.20	-	-	-	4.04	14.39	0.1	18.73
%	1.07	-	-	-	21.57	76.83	0.53	100.0

11. The principal objective of partnership between Korea and Azerbaijan is to develop a close bilateral relationship by mutual cooperation and to strengthen Azerbaijan's development footholds for

accelerated economic growth and sustainable social development. Korea's partnership over the period covered by this CPS will therefore aim to support Azerbaijan's development agenda (as outlined in the SPPRSD 2008-2015) to maintain macroeconomic stability and the balanced development of the non-oil sector; to enhance the public services and system; and to continue the process of institutional reform and to improve good governance practice.

12. Korea's Country Partnership Strategy (CPS) for Azerbaijan for 2012-2015 has been prepared through close collaboration between the government of Korea and Azerbaijan with regular consultations and policy dialogue. A wide range of factors such as in-depth assessment of the Country's current development challenges, Azerbaijan's development strategy and Korea's comparative strengths and expertise were reflected in the process of developing the CPS.

13. For the years 2012-2015, Korea will focus its budget for development cooperation in Azerbaijan on the two priority areas described below. These areas have been strategically selected, where there are clear development needs, solid government commitment and ownership, and, additionally, matching with Korea's comparative advantages in terms of its development experience:

- Strengthening the economic base of the non-oil sector by improving water resources system and energy efficiency, and better business environment
- Enhancing the productivity and effectiveness of the public sector by digitalization of key public system and services and institutional capacity building

14. The delivery of the strategy will be guided by development effectiveness principles and reflects international norms and standards including the MDGs, Busan Partnership Agreement and OECD DAC recommendations. Korea will pursue three values – efficiency, sustainability, and harmonization – to enhance effective implementation.

## **B. Priority Areas**

### ***Priority Area 1:***

***Strengthening the economic base of the non-oil sector by improving water resources system and energy efficiency, and better business environment(Industrial Energy)***

15. The balanced development of the non-oil economy is highlighted in the SPPRSD 2008-2015 as a key aim prioritized for the achievement of the national development goals of successful integration into the global economy system and the maintenance of competitiveness. This program aims to strengthen the economic base of non-oil sectors through i) the improvement of key infrastructures supporting the growth of sectoral industries; and ii) the reformation of policy frameworks and strategies that enable economic diversification and the realization of a better business environment.

*(i) Improvement of water resources system and energy efficiency:*

16. Water and renewable energy sectors are the backbones of the growth of not only non-oil

sector industries, but also of the balanced and sustainable development across the regions. Key programs during the CPS period include:

- **Strengthening infrastructure:** Korea supported activities include upgrading the water development and management system in target settlements (to be defined) to increase the productivity and accessibility to water for industrial and/or domestic use. Analytic work on needs and feasibility and environmental impact assessment will be carried out to enhance the effectiveness of the program.
- **Technical cooperation:** Korea will provide technical support in development of policies, mid-term master plans and/or road maps for water development and the improvement of energy efficiency which includes renewable energy development. Korea will look into possible advisory services through dispatching of experts from Korea to exchange Korea's experience, knowledge and technology.
- **Capacity building of human resources:** The above activities will be supported by greater attention to capacity building of government officials at the central and local level, and managerial staff at the project sites to maximize the sustainability and the effectiveness of those programs. Invitational courses and/or on-site training programs will be supported in accordance with features and objectives of each program.

*(ii) Reformation of policy frameworks and operational strategies for the growth of non-oil sectors:*

17. Despite Azerbaijan's progress in recent years, many opportunities have yet to be fully grasped in order to lead to economic diversification, an increase in sectoral productivity and the attraction of more foreign investment through a better business environment. Sharing Korea's experiences in the process of remarkable economic growth founded on non-oil sectors, economic diversification and human resources development, technical support will be provided in various forms, such as policy advisory works and technical consultations, and information exchange meetings to help Azerbaijan achieve sustainable economic development.

<p><b><i>Priority Area 2: Enhancing the productivity and effectiveness of the public sector by digitalization of key public system and services, and institutional capacity building(Public Administration)</i></b></p>
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18. In order for Azerbaijan to achieve the acceleration of economic growth and sustainable social development, it is indispensable to increase productivity and the effectiveness of the public sector and services. Highlighting this factor, '*continuing the process of institutional reforms and improving good governance*' has been integrated in the national development plan of Azerbaijan not only as of the key success drives, but also as a cross-cutting filter across the sectoral plans. This program aims to help Azerbaijan in promoting the effectiveness of public system particularly through i) the digitalization of key public administration systems and services; and ii) institutional capacity building.

- **Digitalization of key public system and services (e-Government):** The purpose of this program is to maximize the roles of e-Government solutions in enhancing accountability as well as the

effectiveness/ efficiency\_of the public system. Matching the comparative strengths of Korea in the ICT sector to these needs, support will be provided to establishing public online systems of sectoral architectures and to capacity building programs for government officials in order to develop their ICT knowledge and skills. The support plan will be designed in a phased manner, in alignment with the national strategies such as the “Action Program on Formation of e-Government’ to ensure policy coherence.

- Institutional capacity building: Technical assistance will be provided for developing sectoral reform strategies encompassing public sector restructuring, civil services reform and combating corruption. The support plans will be aligned to the Azerbaijan’s public reform policy and designed in phased manner. Capacity building will also be embedded in the program alongside analytic work regarding need assessment.

19. Additionally, sector expert for this area will be dispatched to assist the field office to improve project management and coordination as well as to strengthen technical dialogue with the government of Azerbaijan and other relevant stakeholders.

### **C. Other Areas**

<i>Additional area: Improving the quality of higher education for human resources development by capacity building for higher education institutions including e-Campus system(Higher Education)</i>
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20. In 2005 Azerbaijan joined the Bologna process, through which it committed to upgrading its higher education system to international standards. This program aims to help Azerbaijan achieve this commitment particularly through capacity building of higher education institutions. A support program will be designed in line with the national policies for education sector, and based on an analysis of need assessment. Establishing an e-Campus system, technical consultations for teaching trainings and curriculum development, and upgrading teaching equipment will be possibly incorporated in the support plan.

### **E. Cross-cutting Issues**

21. Korea will make a concerted effort to integrate cross-cutting issues, such as gender equality and environmental sustainability, into the policy development process at the project initiation, formation and evaluation stages. This includes strengthening the strategic connection of cross-cutting issues in each project to comprehensively improve related MDGs such as MDG3 (promote gender equality and empower women), and focusing on building the basis for sustainable development in consideration of possible environmental effect that could be caused by rapid development and/or climate change in Azerbaijan, and providing invitational training programs related to cross-cutting issues.

22. Gender mainstreaming in the mentioned priority areas will be enforced. To ensure gender



equality, when forming programs in each priority area, inputs such as guaranteeing of women's participation and statistical gender analysis will be included.

23. Also, strategic environment assessment and/or environmental impact assessment to evaluate each program's impact on the environment and local population will be conducted, especially for bigger scale infrastructure projects concerning water resources and renewable energy. Capacity building for coping with climate change effects in water and other natural resources management and livelihood measures for the communities at target sites will be also pursued.

## IV. Program Implementation

### A. Aid allocation

24. At least 70% of Korea's ODA will be allocated to priority areas of bilateral cooperation, while some flexibility will be allocated to respond to urgent humanitarian demands and socio-economic changes in Azerbaijan. Through dialogue between the two countries and midterm review in 2014(tentative), the proportion of the budget allocation to priority areas can be discussed and adapted as needed.

**Table 4. Funding Allocation by Priority Areas (%)**

Category		Grant	Concessional Loan (To be approved)
Priority Areas	Priority Area 1. Strengthening the economic base of the non-oil sector by improving water resources system and energy efficiency, and better business environment	30	45
	Priority Area 2. Enhancing the productivity and effectiveness of the public sector by digitalization of key public system and services, and institutional capacity building	30	0
	Other areas: Improving the quality of higher education for human resources development by capacity building for higher education institutions including e-Campus system	10	25
Others		30	30
TOTAL		100	100

\* The figures above are subject to change depending on future consultation and planning of projects.

### B. Coordination among Development Partners

26. The main areas of cooperation with development partners in Azerbaijan will be in line with the national development strategies of Azerbaijan and the priority areas of the CPS.

27. For better development coordination, Korea will consider participating in thematic working groups, particularly in priority areas of the CPS, related to water and renewable energy, e-Government, and higher education sector to enhance aid harmonization with other donors. Additionally, program specialists on the priority areas will be dispatched to the field office to enhance cooperative networks as well as to strengthen technical dialogue with development partners and other relevant stakeholders.

### **C. Monitoring and Evaluation**

28. A comprehensive monitoring system to manage ODA activities in Azerbaijan will be established by designing a risk matrix to effectively respond in case of internal and external emergency. If necessary, strategies will be revised accordingly. Korea will consult with the government of Azerbaijan and participate in consultative meetings to help anticipate and respond to potential risks.

#### *(i) ODA integrated Monitoring System and Risk Management*

29. An integrated monitoring system for ODA was established by the Korean government to manage Korea's overall ODA activities and will be used to monitor Korea's ODA projects in Azerbaijan. The monitoring system utilizes a risk matrix to analyze internal and external risks related to the management of projects. This ensures that the implementation strategy can be adapted to respond to emerging risks. Korea will also hold consultations with the government of Azerbaijan to prevent and detect any possible risks involved in the implementation and management of projects through policy dialogue, and field office dialogue with relevant line ministries and project executing agencies.

#### *(ii) Evaluation of Projects/Programs and the CPS*

30. Korea's evaluation of development projects and programs will be divided into three main categories – performance evaluation including mid-term assessment, final evaluation, and thematic evaluation – to reflect the extent to which activities and outputs contributed to reaching the desired outcomes and impacts. Joint evaluation with Azerbaijan will be also possibly conducted to reinforce the effectiveness of evaluation.

31. Conducting evaluation of the CPS will allow assessing the achievements and serve as a basis to validate the findings and reflect them in the next strategy. A joint mid-term review with the government of Azerbaijan is proposed in 2014 (to be defined) to increase its participation in the evaluation process and share the results. This will enable both the Korean and Azerbaijan governments to assess the effectiveness of Korea's ODA programs under the CPS. The achievement and contribution of the CPS will be assessed six months prior to the expiration of the current CPS by Korea's relevant authorities in consultation with Azerbaijan.

Appendix 1. Summary of Korea’s Country Partnership Strategy with Azerbaijan

<b>The State Program on Poverty Reduction and Sustainable Development of the Republic of Azerbaijan (2008-2015)</b>	
<b>Strategic Goals</b>	I. Ensuring sustainable economic development through maintaining macroeconomic stability; and balanced development of the non-oil sector; II. Increasing income-generating opportunities and achieving substantial reduction in the poorest sections of the population; III. Reducing social risks for old age groups, low-income families and vulnerable groups of the population by developing effective social protection system; IV. Continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs; V. Improving the quality of and ensuring equal access to affordable basic health and education services; VI. Developing social infrastructure, improving public utilities system; VII. Improving the environmental situation and ensuring sustainable environment management; VIII. Promoting and protecting gender equality; IX. Continuing institutional reforms and improving good governance



<b>Korea’s Country Partnership Strategy (CPS) to Azerbaijan (2012-2015)</b>		
<b>Goal</b>	<b>To contribute to Azerbaijan’s balanced growth through economic diversification and sustainable development</b>	
<b>Objectives</b>	<i>Strengthening the economic base of the Non-Oil sector</i>	<i>Enhancing the productivity and effectiveness of the public system</i>
<b>Priority Areas</b>	Industrial Energy(in the non-oil sector) <ul style="list-style-type: none"> <li>Improvement of water resources system and energy efficiency</li> <li>Better business environment</li> </ul>	Public Administration <ul style="list-style-type: none"> <li>Digitalization of key public system and services</li> <li>Institutional capacity building and policy reforms</li> </ul>



<b>Programs</b>	<ul style="list-style-type: none"> <li>Strengthening infrastructure</li> <li>Technical cooperation</li> <li>Capacity building of human resources</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening e-Government</li> <li>Institutional capacity building</li> </ul>
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<b>Basic Principles</b>	<b>Efficiency</b>	<b>Sustainability</b>	<b>Alignment and Harmonization</b>
	<ul style="list-style-type: none"> <li>Predictability</li> <li>Selection and concentration</li> <li>Connection to existing projects</li> </ul>	<ul style="list-style-type: none"> <li>Reinforcing performance evaluation</li> <li>Reinforcing follow-up management</li> <li>Reinforcing monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Coordinating aid efforts among donor countries</li> <li>Aligning with the recipient country’s development strategies</li> </ul>

