UNDP COUNTRY PROGRAMMES AND RELATED ISSUES
FIRST COUNTRY PROGRAMME FOR AZERBAIJAN*

Programme period | Actual resources programmed | $ |
---|---|---|
1994-1996 | IPF | 1 448 000 |
| Estimated cost-sharing | 1 448 000 |

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* The first country programme for Azerbaijan was prepared before the Executive Board adopted decision 95/23 on successor programming arrangements.
I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. Azerbaijan re-established its independence in 1991 and was quickly recognized by the world community. Soon after independence the Parliament introduced a presidential form of government, with power being divided among the executive, legislative and judicial branches. The President, elected for a five-year term, is the head of the executive branch and the Supreme Commander-in-Chief. His constitutional powers are wide-ranging and include nomination of the Prime Minister and Cabinet of Ministers for approval by the legislative branch.

2. For almost six years Azerbaijan has been suffering from the consequences of a dispute over the territory of Nagorny Karabakh. According to official statistics, at present there are over 1 million refugees or internally displaced persons who have left their land and homes unwillingly. Many have been accommodated temporarily, but the massive geographical and social dislocation is putting pressure on the social, economic and political systems of Azerbaijan. Even when a settlement over Nagorny Karabakh is reached, the situation in the country will be strained for many years as a result of the dislocations. Rehabilitation and reconstruction of the conflict areas will require considerable national and international assistance.

3. Azerbaijan has substantial economic potential which, if effectively utilized, could accelerate its integration into the world economy. The country is rich in minerals and has substantial oil and gas reserves, assessed at some 1 billion barrels, mostly offshore in the Caspian Sea. The country also has a considerable oil-processing capacity and transport network connecting it to the northern countries of the Commonwealth of Independent States. The industrial base of the country is quite strong, producing 60 per cent of the gross national product (GNP) and providing employment to over 25 per cent of the workforce. The agriculture sector employs one third of the workforce and represents 40 per cent of the GNP. Eighty per cent of arable land is irrigated. Azerbaijan possesses a high level of scientific and technical potential and a large pool of qualified scientists and other professionals. An additional asset is the country’s geographical position, being located en route to Western European, Middle Eastern and South Asian markets.

4. In the first period of transition, the economy has shrunk considerably. In 1993, the gross domestic product (GDP) was only 60 per cent that of 1988. This trend continued in 1995, with national income, industrial production and agricultural production decreasing by a further 22.3, 24.8 and 11.5 per cent, respectively. The situation in the metallurgical, chemical and construction subsectors has been critical. Even the level of oil production fell to a new low of only 10.5 million tonnes in 1993, falling further in 1994. The production crisis has been accompanied by a high rate of inflation (52 per cent in November 1994) and rising unemployment rates. Considerable growth has taken place in the private sector, particularly in small retail enterprises. This growth, however, is not matched by growth in production enterprises and may prove unsustainable.

//...
5. Women are integrated into the economic production process, forming 44.1 per cent of the total workforce in 1993. Literacy is universal among women and their level of education is higher than that of men. The Constitution prohibits discrimination against women. However, a transition and economic adjustment have been less favourable for women than for men, as women comprise 60 to 70 per cent of the newly unemployed, while only a small number of the new entrepreneurs are women. Women also suffer the most as a result of the Nagorny Karabakh crisis, as 54.9 per cent of those displaced are women. The situation of women calls for attention to the fate of displaced women and women threatened by the economic transition, particularly working mothers, who are often among the first to lose their jobs.

B. National development objectives and strategies

6. Sustainable peace in the region is a prime objective of the Government, requiring concerted efforts towards the rehabilitation and reconstruction of damaged areas and the provision of assistance to the hundreds of thousands of displaced persons, particularly the most vulnerable groups, including women.

7. The exploitation and development of the considerable oil and gas reserves of the country is also a prime objective. Expectations are high and the Government is determined to make use of the reserves to spur economic growth. Nevertheless, the Government recognizes that the effective use of the revenues depends on the formulation and implementation of an integrated strategy for sustainable social progress and economic development.

8. The Government is committed to pursuing structural reforms, fiscal restraint, macroeconomic stabilization policies and effective privatization of large parts of the economy. The far-reaching consequences of and the requirements for the successful implementation of these policies are largely apparent to the Government, which is thus aware of the need for public administration reforms and the introduction of modern information management systems and knowledge. The Government is equally aware that the adjustment policies will lead, in the short run, to higher unemployment rates and greater economic pressure on vulnerable groups. Consequently, an important objective of the Government is the protection of the vulnerable groups against the short-term impact of structural adjustment.

9. Restructuring of the productive sector is an essential component of the structural adjustment policy. The long-term viability of the industrial sector, including the energy sector, requires thorough industrial restructuring, including fundamental changes in ownership and control, management, knowledge and applied technologies, along with massive retraining activities. Sustenance of agriculture also requires fundamental changes in land ownership, cropping patterns and technologies utilized. Thus, the Government assigns high priority to the restructuring of the productive sector.

10. The Government is alarmed by the situation of the environment. The ecological deterioration of the Caspian Sea has attracted global attention, and the Government has indicated its willingness to participate effectively in all initiatives that target the revitalization of the Sea. The Government is also
interested in improving the environmental conditions of the major industrial centres, such as Sumqayyt. The need for a comprehensive sustainable environment strategy is under consideration as well.

II. EXTERNAL COOPERATION

A. Role of external cooperation

11. The assistance of the donor community has concentrated on humanitarian relief for refugees and internally displaced persons. An open and constructive dialogue with the donor community, including UNDP, has ensured the complimentary nature of technical assistance provided to the country.

12. Ever since Azerbaijan became a member of the World Bank, the Bank has followed an extensive programme of activities in the country, including substantive general and sectoral economic assessments. The Bank has already provided a grant of $340,000 to strengthen the country's capacity to mobilize and coordinate technical assistance from bilateral and multilateral donors. The agreed financial assistance to Azerbaijan concerns various loans for different sectors, amounting to a total of approximately $140 million. Those loans are to be disbursed from 1995 onwards. The World Bank and UNDP have close working relations and share common premises and constructive cooperation.

13. Azerbaijan joined the International Monetary Fund (IMF) on 18 September 1994. The Fund's activities have been in the form of technical assistance in the areas of statistics, public finance, money and credit and macro-management. Discussions are now near finalization for an IMF $40 million loan for a financial and monetary reform package to start in 1995.

14. The United Nations system began its humanitarian programmes at the end of 1992. Since the beginning of its operations in the country, the Office of the United Nations High Commissioner for Refugees has committed more than $10 million to assist refugees. World Food Programme assistance has amounted to over $10 million worth of food. The UNICEF programme has totalled approximately $4 million during the 1993-1994 period. The United Nations Department of Humanitarian Affairs (DHA) began its operations recently and is providing technical advice. The United Nations Population Fund (UNFPA) is starting a family planning programme with an initial funding of $1 million. The World Health Organization (WHO) is also initiating a programme.

B. Aid coordination arrangements

15. The responsibility for the coordination of all external technical assistance is assigned to a coordinating unit within the Cabinet of Ministers (under the global supervision of the Prime Minister), which also coordinates policy contacts with all other technical bodies of the Government.

16. The responsibility for the coordination of humanitarian assistance rests with the Office of the Deputy Prime Minister for Humanitarian Affairs; the advice of UNDP is sought when needed.
17. The Government appreciates the constructive cooperation between UNDP, the World Bank and IMF in the country, which ensures consistency and complementarity of their respective programmes in Azerbaijan. The tripartite consultation mechanism in place allows UNDP to assume the ground-breaking role, while the other two institutions provide the required funding for major areas of technical assistance.

18. Coordination with other United Nations agencies not present in Baku, the capital, will be ensured through sectoral review and planning missions, as well as the continuous exchange of information.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing programme

19. UNDP established its office in Azerbaijan in October 1992. Further to consultations with the Government, donor community and United Nations agencies, a Short-Term Country Framework (SCF) for Azerbaijan was formulated in July 1993. SCF was treated as a de facto country programme, as it identified major priority areas for concentration, goals and strategies and a programme for UNDP assistance. SCF did not specify projects.

20. SCF was formulated at the critical time of transition to a democratic system oriented towards market economy. As such, the document represented the essential requirements of the time. It suggested concentration on (a) human capacity-building, (b) social sector programmes, (c) natural resources and environment and (d) public and private sector management.

21. A preliminary assessment of SCF carried out by the field office in consultation with the pertinent authorities in the Government has provided useful insights and lessons. An in-depth assessment of programming activities carried out under SCF should await its completion.

22. To implement SCF recommendations, four projects have been signed, a pipeline of projects has been created and a number of important initiatives are being taken.

23. Projects approved under SCF are: (a) a United Nations Office for Project Services (UNOPS)-implemented umbrella project covering initial UNDP programme activities, which aims at strengthening the international aid coordination mechanism and the provision of ad hoc advisory and training services; (b) a United Nations Educational, Scientific and Cultural Organization (UNESCO)-implemented project to strengthen computer technology and training centres, targeted at the development of computerized procedures in several key sectors; (c) and International Labour Organization (ILO)-implemented project to carry out the first survey of the labour force of Azerbaijan; and (d) a United Nations Conference on Trade and Development-executed project on the linkage of small- and medium-sized enterprises with transnational corporations, which provides training to selected bank professionals. All approved projects deal with SCF objectives for human capacity-building and public and private sector management.
24. Hard pipeline projects include an environment management project and a project on industrial restructuring. Soft pipeline projects address income-generating activities, environmental health and farming technology. The pipeline projects concentrate mainly on SCF objectives in the social sector, natural resources and the environment.

25. Whether under implementation or in pipeline, all projects fall within the scope of SCF and its areas of concentration. The uneven progress in meeting the objectives of the four SCF areas of concentration can be attributed primarily to the need for better follow-up by the pertinent international executing agencies, i.e., UNESCO and ILO, as well as to the need for a stronger response from national authorities.

26. The initiatives supported by the UNDP office include: (a) promotion of the establishment of the Government aid coordination agency; (b) the preparation of a Human Development Report for Azerbaijan; (c) initiation and preparation of a disaster management-training programme, in collaboration with the Department of Humanitarian Affairs; (d) introduction of and sensitization to environmental windows such as the Global Environment Facility (GEF), the Montreal Protocol and Capacity 21; and (e) preparation of a database on all economic zones of Azerbaijan utilizing the Development Support Services mechanism.

27. The efforts devoted to the above-mentioned initiatives, which are development-related but which do not fall within the traditional development project formulation and implementation activities, heavily burdened the newly established office, manned with committed, but still inexperienced nationals. In addition, considerable time and energy were devoted to jointly establishing a United Nations integrated office and to assisting the United Nations to fulfil its mandate in the areas of peace and security and its efforts to facilitate the settlement of the Nagorny Karabakh conflict.

28. Efforts were made to ensure that development funds would not be scattered into small projects. The focus on relatively large-scale projects that deal with thematic areas rather than with specific sectors has proven successful. Among other things, this programme approach has helped to broaden the base of target beneficiaries.

29. All of the ongoing projects are executed by United Nations agencies. The degree of backstopping from the United Nations agencies has been adequate and consistent among the different agencies.

30. The degree of support from and the managerial capacity of national counterparts has not always been sufficient, reflecting the different degrees of exposure to the international community.

31. Provision of on-the-job training has proved effective, particularly in cases where training has been provided by professional experts to a specialized audience. This modality of training was used frequently during the programming exercise. Study tours abroad have helped to familiarize officials with the working mechanisms of international institutions and have helped in the exchange of information. In view of their low cost and effectiveness, further short study tours are recommended.
32. Overall, SCF has been successful in meeting most of its objectives and in establishing UNDP as an agent of sustainable development in Azerbaijan.

B. New proposals for UNDP cooperation

1. Preparatory process

33. The first country programme for Azerbaijan is in principle a modified version of SCF, updated and improved to reflect the realities of the present situation in the country and to incorporate the lessons learned during the 1992-1994 period. In preparation of the first country programme, SCF was treated as the major vehicle for discussion and was the starting-point for the preparation of the country programme document.

34. In March 1995, an internal informal assessment of SCF was conducted by the UNDP office. Views on the scope, relevance and impact of SCF were obtained from the national management teams of the ongoing and pipeline projects, executing agencies, selected non-governmental organizations (NGOs) and donors. As reflected in paragraphs 19-32 above, the assessment confirmed the relevance of the SCF objectives and areas of concentration.

35. The present document was prepared by the Government on the basis of the assessment of SCF, incorporating the sectoral reviews carried out by United Nations agencies as well as observations emanating from its continuous dialogue with the UNDP office.

2. Strategy for UNDP cooperation

36. The Government welcomes the UNDP presence in Azerbaijan, in order to benefit from the UNDP comparative advantage in the areas of capacity-building, upstream policy advice, aid mobilization and coordination; its ability to provide for the exchange of knowledge and information in an impartial manner; and, finally, its stated ultimate objective of sustainable human development. The initial strategy for UNDP cooperation as incorporated in SCF reflects this raison d'être and should therefore continue.

37. The UNDP core budget for Azerbaijan for the fifth cycle is very limited and almost fully committed to ongoing projects. Most recently, the Government has renewed its interest in cost-sharing agreements, and with progress in the peace process in the region and the successful development of the energy sector, cost-sharing with bilateral donors is also expected.

38. Aside from its limited core budget, UNDP manages a number of trust funds and special programming resources that could be utilized in its areas of comparative advantage. Furthermore, UNDP plays a substantive role in the management of two important environmental funding mechanisms, GEF and the Montreal Protocol, both of which potentially could be accessed by Azerbaijan. The cooperation strategy should thus emphasize the need to facilitate access to non-core sources.
39. The Government also wishes to benefit from global and regional programmes, projects and initiatives that are funded and/or managed by UNDP. Of particular interest are regional programmes for the countries of the Commonwealth of Independent States; acquired immune deficiency initiatives; programmes dealing with democracy, governance and participation, and the United Nations International Drug Control Programme, as well as initiatives resulting from the world conferences on themes such as women, human settlement, social development and environment.

3. Proposed areas of concentration

40. In view of the principal objectives of SCF, the national development objectives and strategies of the Government (see paras. 6-10 above) and the preferred strategy for UNDP cooperation, the Government has endorsed the following areas of concentration for the first UNDP country programme:

(a) Improved management of the environment and natural resources, with particular emphasis on national capacity-building;

(b) Rationalization of the productive sectors through improved management in the public and private sectors;

(c) Alleviation of the adverse social impact of the Nagorny Karabakh conflict through assistance to rehabilitation and reconstruction management of the war-damaged areas.

41. The three areas of concentration described above are interrelated and all target human development activities. They also present potential for cost-sharing, international aid and future investments. In each area of concentration, the following projects will be implemented and initiatives taken.

Improved management of environment

42. Environment administration. The deplorable situation of the environment requires serious and urgent attention. The present environment administration system is poorly staffed and is not equipped to cope with the current issues and challenges. In order to strengthen and build the required national capacity to effectively address the environmental issues of the country, a project is proposed under which technical assistance will be provided to pertinent government authorities, as well as to NGOs, to raise environmental awareness among decision makers and the public and to introduce modern techniques of environmental impact assessment and recommend institutional reforms. The project would be of a modest size, with $200,000 from IPF resources. With initial success, it is expected that the project could attract additional funding from donors, including oil companies.

43. National strategy for environment. Azerbaijan has endorsed the conclusions of the United Nations Conference on Environment and Development, including Agenda 21. The Government is aware of the essential need to integrate the processes of environment and development planning to assure sustenance of growth. To assist the Government in this direction, joint UNDP/Government
efforts should be made to obtain funding through the Capacity 21 programme for preparation of a project with the objective of producing a national strategy for environment and sustainable development for Azerbaijan. The project should aim to establish a national environment database and to chart sustainable alternatives for the country’s social and economic growth.

44. **Phase-out of ozone-depleting substances.** The use of ozone-depleting substances (ODS) in the refrigerator industry in Azerbaijan is alarmingly extensive. To phase out the use of ODS in the industry, international assistance should be sought either through the Montreal Protocol or GEF. Serious UNDP/Government follow-up is required to initiate this initiative, which could attract considerable incremental investment.

45. **Caspian Sea.** Pollution and the erosion of biodiversity in the Caspian Sea have attracted international attention. An initiative jointly endorsed by the World Bank, UNDP and the United Nations Environment Programme has already started to collect facts about the Sea through missions to all the littoral States. Regional cooperation is required to ensure the employment of effective remedial and control measures. UNDP is prepared to assist the efforts of the Government to gain access to GEF funding for this important purpose.

46. **Environmental health.** Environmental health is an area of major concern. UNDP is prepared to provide seed money for a UNDP/WHO project, within the framework of the national industrial programme on environment and health. The project would provide assistance to selected regions in Azerbaijan, allowing for the preparation of studies supportive of investment projects aimed at the control of industrial pollution, water treatment, soil rehabilitation and cleaning processes for hazardous waste disposal sites.

**Rationalization of productive sectors**

47. **Industrial restructuring.** Market orientation of the economy requires fundamental restructuring of industry to allow for cost-effectiveness. At present, industry in Azerbaijan is designed mostly to complement industrial plants in the other parts of the former Soviet Union, is obsolete and loss making. In addition, State management leaves much room for improvement. Following two sectoral missions by the United Nations Industrial Development Organization, the Government has requested technical assistance to review the industrial situation in Sumqayyt, which has the highest concentration of industry. The survey will help to identify major causes of industrial problems, providing recommendations for fundamental restructuring. It is hoped that IPF core funding of $300,000 would lead to investments by the donor community.

48. **Strengthening of computer technology and training centre.** The aim of this project, which started in 1994 and is planned to continue for the next two years, is to build national capacity in automated information management, especially in key sectors such as industry and banking.
Alleviation of adverse social impacts

49. Support for the relief to reconstruction continuum. UNDP is well aware of and shares the concern of the Government regarding the adverse social and economic impact of the Nagorny Karabakh conflict. Relief operations and activities are mostly the mandates of other United Nations agencies. The mandate of UNDP requires it to assist in aid mobilization and to engage in rehabilitation and reconstruction activities, when emergency and relief stages are near completion. UNDP is involved in the preparations for the launching of a consolidated appeal for rehabilitation and reconstruction, when a political agreement to the Nagorny Karabakh conflict is reached. With the finalization of the appeal and materialization of pledges, UNDP will assume its required role in reconstruction activities.

50. Income generation. UNDP will fund a modestly budgeted income-generating project to assist women who are refugees. The objective of the project will be to enable a selected and representative group of refugee women to acquire handicraft skills to generate a sustainable income. The project will be implemented by NGOs. While the funds provided will be limited and symbolic, the project will help to establish an essential link between the refugee population and UNDP, thus contributing to the organization's understanding of refugee issues and its ability to assist in the mobilization of resources.

51. Disaster management training. A national workshop for disaster management training in Azerbaijan was recently organized jointly by UNDP and DHA. The objective is to introduce the concept of an integrated disaster management methodology to the Government and the public. It is also expected that the workshop will lead to funding from special programming resources for a national disaster management project.

C. Assistance outside the main areas of concentration

52. Aid mobilization and coordination will be a major area of activity for UNDP. UNDP will participate actively in the dialogue with the donor community to attract aid and investments to the country and will strongly support government initiatives to coordinate the flow of external resources.

53. UNDP will continue to provide upstream technical advice and appropriate professional training opportunities as requested by the Government in the course of its transition to a market economy. In particular, technical advice will be provided to reduce the adverse impact of the transition to a market economy on vulnerable groups. A suitable vehicle for the provision of such technical assistance is the UNOPS-implemented umbrella project, which will continue and be extended.

54. UNDP will continue to pursue the initiatives it began upon its establishment in Azerbaijan, including, inter alia, providing assistance for the preparation of the Human Development Report for Azerbaijan and support for the women-in-development initiative, drug control and the preparation of specific issue papers required by the Government and agencies.
55. UNDP will do its utmost to reintegrate Azerbaijan into the international community. Particular efforts will be made to support contacts with all United Nations agencies, including the World Bank and IMF.

D. Implementation and management arrangements

56. As a rule, projects will be executed by the specialized agencies of the United Nations, unless the professional and administrative capacity of a potential national counterpart is proven to be adequate to justify national execution. However, national execution capacity-building activities will be strengthened.

57. Whenever possible, projects will be prepared along the lines of sectors rather than individual units of the Government.

58. Recruitment of long-term resident international experts will be discouraged. Extensive use will be made of highly qualified short-term experts.

59. With the emphasis of the country programme on national capacity-building and sustainability, efforts will be made to utilize the services of nationals in the administration and implementation of projects and initiatives.

60. UNDP supports the growing presence of national and international NGOs. Participation by NGOs in the formulation and implementation of projects will be encouraged, particularly for rehabilitation projects that provide a bridge from relief to development activities.

61. National execution is a modality which will be promoted more and more by UNDP in Azerbaijan. As government capacity develops and relations with international organizations consolidate, national execution will become a primary instrument to ensure national ownership and encourage beneficiaries to assume full responsibility for the efficient use of the overall flow of external resources for development.

IV. EXECUTIVE BOARD ACTION

62. The Administrator recommends that the Executive Board:

Approve the first country programme for Azerbaijan.
Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF AND COST-SHARING) TAKEN INTO ACCOUNT FOR PROGRAMMING

<table>
<thead>
<tr>
<th>Description</th>
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<tr>
<td>Fifth cycle IPF</td>
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<tr>
<td>Less 1992-1994 actual expenditure</td>
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<td><strong>Subtotal</strong></td>
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<tr>
<td>Government cost-sharing</td>
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<td>Third party cost-sharing</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<tr>
<td><strong>Total</strong></td>
<td>1,448,000</td>
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II. ALLOCATION OF RESOURCES (IPF AND COST-SHARING) BY AREA OF CONCENTRATION

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<tr>
<th>Area of concentration</th>
<th>(Thousands of dollars)</th>
<th>Percentage of total resources</th>
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<tbody>
<tr>
<td>Ongoing projects from SCF</td>
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<td>Improved management of environment</td>
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<td>Rationalization of productive sector</td>
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<td>Alleviation of adverse social impacts</td>
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III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES

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<th>Source</th>
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<td><strong>A. UNDP-administered funds</strong></td>
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<td>Special Programme Resources</td>
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<td>Global Environment Facility</td>
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<td><strong>Subtotal</strong></td>
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<td><strong>B. Other United Nations resources</strong></td>
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<td>United Nations Population Fund</td>
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<td>United Nations Children’s Fund</td>
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<td>United Nations Industrial Development Organization</td>
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<td><strong>Subtotal</strong></td>
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<tr>
<td><strong>Total non-core and other United Nations resources</strong></td>
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## Annex II

### PROGRAMME MATRIX

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<thead>
<tr>
<th>Areas of concentration</th>
<th>Poverty eradication and grass-roots participation</th>
<th>Environment and natural resource management</th>
<th>Management development</th>
<th>TCDC</th>
<th>Transfer and adaptation of technology for development</th>
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### Area of focus a/

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<td>Income generation</td>
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<td>Disaster-management training</td>
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*a/ Asterisks indicate major linkages only.*