

Azerbaijan poverty rate

[Sociology](#), [Poverty](#)



Approved by the Decree #3043 of the President of the Republic of Azerbaijan dated of September 15, 2008 State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015

Chapter 1 Introduction In order to tackle poverty on a global level, the heads of 147 world countries joined together at the United Nations (UN) Millennium Summit in New York in September 2000 to sign the Millennium Declaration reflecting Millennium Development Goals (MDGs) and committed themselves to achieving poverty reduction by 2015.

In order to meet the challenges set out in the Declaration, a set of 8 global goals were formulated, with 18 targets and 48 indicators. The first of these goals is to halve the number of the world's population living in extreme poverty and hunger. National leader Heydar Aliyev signed the Millennium Declaration on behalf of the Republic of Azerbaijan.

In order to honor this commitment in line with the local conditions in the Republic of Azerbaijan which is signatory to the Millennium Declaration, the President of the Republic of Azerbaijan approved by his Decree #854 of February 20, 2003 the State Program on Poverty Reduction and Economic Development (SPPRED) in the Republic of Azerbaijan for 2003-2005. Implementation of that State Program in 2003-2005 resulted in maintaining overall macroeconomic stability, ensuring dynamic economic growth and upholding inflation and national exchange rates at appropriate levels.

In its turn these achievements promoted to implementation of substantial activities aimed at solution existing social problems as well as tackling poverty. So the poverty level consequently came down from 46.7% in 2002 to 29.3% in 2005. In order to continue the positive process in improving the

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population's welfare the State Program on Poverty Reduction and Sustainable Development (SPPRSD) in the Republic of Azerbaijan for 2008-2015 was prepared.

Chapter 2 Poverty in Azerbaijan 2. 1. Poverty Profile, Levels and Indicators

Table 2. 1 summarizes the poverty levels in the country on the basis of statistics and data derived from the Household Budget Survey (HBS) for 2002-2007. Table 2. 1. Poverty levels for the Republic of Azerbaijan 2002

Year	Poverty line, in AZN	Poverty level, in %
2002	46. 7	35. 8
2003	44. 7	38. 8
2004	40. 2	29. 3
2005	58	20. 8
2006	64	15. 8
2007		

As it is seen from the Table in 2007 the poverty level dropped to 15. 8%. Analysis of the HBS data suggests that the following factors are associated with poverty risk in the country: there is a small difference in the poverty rates for urban and rural areas, but the poverty incidence in the urban area has been declining at a faster rate than that in the rural area; 2 the lowest monthly income per capita by economic regions is reported in Upper Karabakh, Aran and Highland Shirvan.

But the main difference is between Baku and the regions of the country (Difference in income rate between Baku and Upper Karabakh with Aran areas was correspondingly AZN25. 9 and 19. 7); the poverty risk increases the larger the household size (number of household members); the monthly income rate per capita in household with 4 children 1. 5 times lower compared to household without children and 1. 3 times lower compared to household with 1 child.

Income per capita for people living alone is 2 times higher than that one for households with children; the poverty risk for the household decreases the higher the education level of the head of the household, especially when the head of household has higher education; while the monthly income rate for households where the head of household is in the 30-39, 40-49 and 60+ age groups is lower, it for households where the head of household is in the 18-29 and 50-59 age groups is higher than average one; Income is a means to improve living standards, but it is not the only factor contributing to poverty reduction.

Raising income levels without achieving parallel improvements in the delivery of social services will not solve the poverty problem in the country. It is therefore also important to monitor such indicators as infant and child mortality, maternal mortality, food security and child nutrition, incidence of communicable diseases, school attendance and enrolment rates, and school learning achievement results.

There is still a number measurement challenges in the monitoring of the aspects listed above, but the available data suggest summarizing the following points: present ozone layer depletion, climate changes, abrupt reduction of biodiversity, continuous natural disasters, pollution of the environment cause spreading of various diseases. Respiratory tract, infectious, parasitic, blood circulation diseases and indigestion are mainly widespread among population of the country; the incidence of communicable diseases which can be easily prevented, such as TB, malaria, is going down, but needs to be kept under control.

This requires relevant public investment in preventative measures in the public health services, and for children, ensuring full coverage with immunization programs; there are still under-nutrition and malnutrition problems amongst vulnerable groups, particularly but not only the Internally Displaced People (IDPs). There is a need to intervene with special programs for these groups; school enrolment rates are high, but there are concerns about growing differentials in quality of education provided at schools.

Public investment in education is necessary to increase for addressing these differentials, and ensure that all children are provided with the same opportunities; housing conditions for vulnerable sections of the population are unsatisfactory, and affect the health status of household members. Overcrowding, heating with non-clean fuel, lack of regular electricity supply, and lack of access to piped water are problems faced by a large section of the IDP population, and other vulnerable groups. Public investment has to prioritize improvements in social infrastructure for these groups. . 2.

Significant Points for Policy Formulation Based on HBS results the following points should be taken into consideration when formulating policy priorities:

1. Income generation has been much easier in Baku than in other urban and rural areas. The regions outside of Baku have lower living standards, suggesting less employment opportunities. From this prospective there is a need to promote sustainable economic development including that one across different sectors in the regions considering local peculiarities.
2. The fact that there is a high poverty risk for those in working age (higher than for retired age) suggests that employment does not necessarily protect households and individuals from poverty. From this viewpoint there is a need

to ensure that employment is high-wage and productivity - i. e. there is a need to develop labor intensive sectors, and to replace underemployment with employment in productive jobs. 3. Children have the highest poverty risk, as do households with many children.

As children represent additional expenditure for households some of the poverty risk for children can be reduced by improving the income-generating activities of adult household members. Meantime social protection measures also need to ensure that vulnerable households with children are provided with support. The fact that children have a higher poverty risk than the elderly suggests the need to focus more social expenditure on the younger age groups and families with children. . Recent ever-growing worldwide need in food, drastic rise in prices of energy resources as well as use of arable lands for bioenergetic raw materials cultivation cause rise in price of foodstuffs. In its turn it affects negatively on food supply to low-income groups of population, and on overall living standards in the country. Food security issues have to be reconsidered in the light of current international and local situation. Chapter 3 SPPRSD - Overview 3. 1.

Strategic Goals The following 9 strategic goals for the SPPRSD for 2008-2015 were identified: 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 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 environmental situation and ensuring sustainable management of environment; VIII. promoting and protecting gender equality; IX. continuing institutional reforms and improving good governance. . 2. Specific Features

The specific features of the SPPRSD can be summarized as follows: it is fully aligned with the MDGs and sets relevant country policy goals and specific targets; meantime these goals represent logical follow-up of the SPPRED while adhering principles of full methodological succession; it is aligned with other current state programs; it is based on a participatory and monitoring process involving the government and international organizations and civil society.

In order to achieve the strategic goals set out above measures to be implemented over 2008-2015 are classified under the 4 functional groups and set forth in the SPPRSD Chapters 4-7: 1. macroeconomic stability and economic growth (Chapter 4); 2. employment policy and social protection of the population (Chapter 5); 3. human development and social progress (Chapter 6); 4. institutional policy and good governance (Chapter 7). 4

Participatory process involving joint activities of the government, civil society and international organizations as an important factor in implementation of the program as well as other issues relating to the monitoring mechanisms over activities to be implemented and over outcomes to be achieved within the program are specified in the last, 8th Chapter of the SPPRSD (“ participation and monitoring”). This State Program sets priorities and targets

for 8-year period (2008-2015) and includes a list of policy measures for the first 3-year period (2008-2010) (Attachment ? 1).

Meantime based on the results of these activities approval of the new action plan for 2011-2015 is provided. The main sources for financing the State Program are funds to be allocated for these purposes from the State Budget, the State Oil Fund (SOFAR) and the State Social Protection Fund (SSPF) as well as other sources not conflicting with legislation of the Republic of Azerbaijan. Sources and amounts of funds required for implementation of the activities within the SPPRSD will be identified while considering development the State Budget, off-budget funds and MTEF on annual basis.

In addition amounts of funds allocated for implementation of the SPPRSD policy measures and activities will be aligned with the financing sources of other strategy and concept papers, state programs, work and action plans (Attachment ? 2) as well as adjusted with loan agreements signed with international financial institutions. 3. 3. Summary of Goals, Targets and Indicators The Table 3. 1 below summarizes generalized system of relevant targets and indicators on 9 strategic goals of the State Program. Table 3. 1. Overview of the strategic goals, targets and indicators of the SPPRSD Strategic Goals 1.

Ensuring sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector Targets 1. Maintain single digit figure inflation rate since 2011 by its annual reducing throughout 2008-2010 and maintaining at the manageable level 2. Increase GDP per capita by 2 times in 2008- 2015 3. Increase real non-oil GDP by 2 times by 2008-2015 4. Maintain non-oil GDP real minimum growth

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rate at 7-8% level in 2008-2015 2. Increasing income-generating opportunities and achieving substantial reduction in the poorest sections of the population 3.

Reducing social risks for old age groups, low-income families and vulnerable groups of population by developing effective social protection system 5. Achieve 2 times poverty rate reduction by 2015 6. Reduce unemployment rate to 34% by 2015 7. Ensure that minimum wage and basic pensions level are raised on regular basis and exceed the national minimum subsistence level since 2011 8. Gradually bring the eligibility criterion for receipt of social assistance up to the level of the Monitoring indicators and baselines Inflation rate: 16. 7% (2007) GDP per capita: 3168. AZN (2007) Non-oil GDP: 9. 5 bln. AZN (2007) Non-oil GDP real minimum growth rate: 11. 3% (2007) Poverty rate: 15. 8% (2007) Unemployment rate: 6. 5% (2007) Minimum subsistence level: 70 AZN (2008) Minimum wage: 60 AZN (by early 2008) Basic pensions: 60 AZN (by early 2008) Eligibility criterion for social assistance: 45 AZN (by early 2008) 5 Strategic Goals Targets national subsistence minimum 4. Continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs 9. Improve the living conditions of refugees and IDPs 10.

Increase the level of employment among refugees and IDPs to the average national employment level 11. Ensure that all school age children complete a full course of general education (I-XI grades) by 2015 12. Increase by 2 times the share of children in pre-school age completing pre-school education by 2015 13. Ensure complete access of all schoolchildren to computers and internet by 2015 Share of refugees and IDPs settled in “decent houses”:

46% (2007) Employment rate among refugees and IDPs: 31. 7% (2007) Net enrollment rate at: primary education: 94. 9% (2007) basic education: 79. % (2007) secondary education: 48. 8% (2007) Pre-school education coverage rate: 17. 2% (2007) Monitoring indicators and baselines 5. improving the quality of and ensuring equal access to affordable basic health and education services 14. Achieve the European countries average under-one mortality rate by 2015 15. Achieve the European countries average maternal mortality by three quarters by 2015 16. Halt the spread of tuberculosis, malaria, brucellosis by 2015 17. Halt the spread of HIV/AIDS by 2010 18. Increase life expectancy at birth to 76, of which 74. 5 years for men and 77. for women by 2015 6. developing social infrastructure, improving public utilities system 19. Create a reliable water supply system in the regional towns and villages by using local springs and ground water sources and supply all the population with water through a centralized water supply system by 2015 20. Provide complete aeration and sanitation services in towns and settlements of the country by 2015 21. Improve households gas supply through a centralized gas supply system Number of pupils per computer in general secondary schools in: total: 47 (2007) V-XI grades: 29 (2007).

Share of schools with internet access: 3% (2007) Under-one mortality rate: 12. 1 per 1, 000 (2007) 35. 5 per 100, 000 (2007) Tuberculosis: 7, 783 cases (2007) Malaria: 106 cases (2007) Brucellosis: 475 cases (2007) HIV/AIDS infections: 1, 379 registered cases (2007) Life expectancy at birth: 72. 4 (2007) of which: male - 69. 7 years (2007) female - 75. 1 years (2007) Share of population with reliable water supply system in the regional towns and villages: 46. 5% (2007) Share of population provided by the centralized

sanitation services: 33. 7% (2006) Households with gas supply: 81. 2% (2007) 6 Strategic Goals Targets 22.

Supply of heating to residential and non-residential buildings by 2015 23. Ensure complete satisfaction of the country's energy demands through internal resources and uninterrupted electricity power supply for all households by 2015 24. Provide complete domestic household wastes related services 2015 25. Increase the number of telephones to 50 per 100 persons in cities and regional towns and to 30 per 100 persons in rural areas by 2015 26. Increase the number of internet users to 50 per 100 by 2015 27. Reconstruct 2, 800 km of the country's roads in line with international standards by 2015 7. Improving environmental situation and ensuring sustainable management of environment 28. Increase the proportion of forest areas in total land area to 12. 5% by 2015 29. Increase the share of protected land area in the total surface area to 12% by 2015 30. Decrease by 20% the conditional fuel used for 1 kw of energy for reducing green-house emissions in the energy sector by 2015 31. Achieve complete sewage treatment in the country by 2015 32. Achieve 80% recycling and neutralization of solid household wastes in the large cities by 2015 8. promoting and protecting gender equality 33.

Ensure increased participation level of women in decision-making by 2015
Monitoring indicators and baselines Residential buildings heating supply: 22. 7% (2006) Electricity power production in the country: 21. 4 bln kvh (2007) 700, 000 subscribers in Baku are provided by services in this sector (2006) Telephone lines per 100 person: in total - 14. 6 (2007) in urban areas - 33 (2007), In rural areas - 9. 4 (2007) Internet users: 12 per 100 (2007) Total

length of the roads reconstructed in line with international standards: 1, 020 km (2007) Proportion of forest areas in total land area: 11. % (2007) Share of protected land area in the total surface area: 8. 1% (2007) Quantity of conditional fuel used for 1 kw of energy: 386 gr (2006) Sewage treatment in large cities: 57. 9% (2006) Share of recycled and neutralized solid household wastes in the large cities: 10. 9% (2006) Share of women among: Central executive authority chairpersons - 4 % (2007), Members of Parliament - 11. 2% (2005) Municipalities - 4. 08% (2004) Judges - 16% (2007) 9. continuing institutional reforms and improving good governance 34. Improve “ good governance” and the quality of public sector management so as to align with EU standards by 2015.

Chapter 4 Macroeconomic Stability and Economic Growth 7 4. 1. Links to Poverty Poverty is a multidimensional problem that goes beyond economics to include social and institutional issues. Although poverty reduction cannot be based exclusively on economic policies, economic growth and macroeconomic stability remain a prerequisite for poverty reduction, and are essential in order to achieve broad-based and sustainable rates of growth. One of the principle prerequisite ensuring sustainable economic growth includes territorial and geographical diversification of the economic growth.

In this regard non-oil sector development and regions balanced development are of utmost importance. Thus, sustainable economic growth is the basis of macroeconomic stability. To safeguard macroeconomic stability, all public expenditures of the country must be managed in a sustainable, non-inflationary manner. Researches show that rapid increases in inflation tend to hurt the poor most, and increase the likelihood of people who live just

above the poverty line falling back into poverty. Thus macroeconomic stability, ensured sustainable economic growth, and careful management of government revenue and expenditure have key importance. . 2. Current Situation and Main Challenges As a result of the successful economic policies implemented last year, overall macroeconomic stability has been maintained, sustainable economic growth ensured, development of entrepreneurship expanded, and job creation, especially in the regions has increased. These have all led to an increase in income generating opportunities, and a significant improvement in the well-being of the people. As Table 4. 1 shows, Azerbaijan's high rate of GDP growth in 2003-2005, has made it one of the fastest growing countries not only in the region, but in the world.

Table 4. 1. Main indicators of the GDP for 2004-2007

Year	Total amount of GDP, in bln. AZN	of which non-oil sector	Per capita GDP, in AZN	Real growth rate of GDP, in %	Deflator index of GDP, in %	Share of non-government sector in GDP, in %
2004	1,042	513.9	26.4	116.1	77.8	2006
2005	1,241	513.9	26.4	116.1	77.8	2006
2006	1,241	513.9	26.4	116.1	77.8	2007
2007	1,241	513.9	26.4	116.1	77.8	2007

In this period oil revenue continued to be accumulated in SOFAR and additional budget revenue due to the increase in global oil prices, was accumulated in a special account.

The National Bank (NB) of the Republic of Azerbaijan made limited purchase interventions in the currency market and continued to issue of its short-term notes as part of the sterilization policy to neutralize surplus liquidity in the banking system. In addition in order to limit the expected negative impact of the huge oil and gas revenues on the economy and to the Presidential

Decree dated September 27, 2004 approved the “ Long-term Strategy on Management of Oil and Gas Revenues” which has the objective of channeling the energy sector revenues into the development of non-oil sector, poverty reduction, and the development of human capital.

This strategy is a basis to promote to the non-oil sector integration to the world economy enhancing its international competitiveness. Control over the nominal exchange rate of the national currency has ensured a long-term favorable trend in the real exchange rate index and helped to promote the international competitiveness of the country. Although the real effective exchange rate of the national currency appreciated by 12. 2% in the non-oil sector during 2007, it depreciated by 11% in December, 2007 compared with the relevant period of 2000. Thus though the real effective exchange rate was strengthened for short term it changed in scales promoting to protection of the international competitiveness of the country. The amount of currency reserves has increased significantly. The amount of official currency reserves of the NB for January 1, 2008 exceeded 4 bln. USD. At the same time, the amount of internal currency reserve equivalent to exported goods and services excluding the oil sector exceeds 5 times the international standards on funding terms. The share of foreign debts under state guarantee in GDP decreased to 18. % in 2004 and 8. 2% in 2007. The total amount of investment in the national economy from all sources increased at 1. 5 times in 2007 compared with 2004, and amounted to 7. 5 bln. AZN (8. 7 bln. USD), 3. 3 bln. USD of which was FDI (90. 5% in oil sector). At the same time the amount of investment from domestic financial sources in the same period also increased by 3. 5 times, and its share in total investment increased from

26. 9% in 2004 to 61. 9% in 2007. The total trade operations amounted to 27 bln. USD in 2005, of which exports accounted for 21 bln.

USD and imports 6 bln. USD, with the positive saldo on all export-import operations amounting 15 bln. USD. As a result of measures to improve the legal regulatory framework of the securities market, to protect the rights of investors, to enhance application of corporate management standards, to ensure proper information by issuers and to create an organized loan market, the number and amount of shares issued have been increased. So if in 2004, 50 issuers issued 62 shares with a total value of 91. 9 mln. AZN, 108 shares were issued by 84 issuers with a total value of 225. mln. AZN in 2005; in 2006, 100 issuers issued 135 shares with a total value of 340. 8 mln. AZN and 137 shares were issued by 113 issuers with a total value of 795. 4 mln. AZN in 2007. In order to promote further improvement in the investment climate, entrepreneurship development and subsequently creation of new job places corporate tax was decreased from 27% to 25% in 2003, 24% in 2004 and 22% on January 1, 2006. Compulsory social insurance contributions from employers were also reduced from 29% to 27% in 2003 and 22% in 2005.

Agricultural producers have been exempted from all taxes, except for the land tax, for a five year period (2004-2008). In order to expand the use of the simplified tax system, from 2003 the simplified tax turnover has been increased from 300 times of non-taxable monthly income (6, 000 AZN) to 22, 500 times of the conditional monetary unit (24, 750 AZN). In order to promote development of the entrepreneurial activities Presidential Decree

#2458 on “ Measures to Ensure Arranging One-stop-shop Principle Based Activities of the Entrepreneurship Subjects” was signed on October 25, 2007.

In order to promote entrepreneurial activities and increase state support to entrepreneurs, the total amount of soft state loans provided through the National Fund for Entrepreneurial Support has increased annually 40 mln. AZN in 2005, 80 mln. AZN in 2006 and 90. 7 mln. AZN. Meantime the organization of regular business forums in the same period has also had a positive impact, and has helped to bring together local entrepreneurs to officials and businessmen from different countries, thus expanding their access to information, while also helping to promote further foreign investment.

In order to develop the banking system, to strengthen private banks and to increase the population’s confidence in them, requirements to the minimum amount of the banks charter capital have been increased, limits on the maximum share of foreign bank capital were eliminated and a centralized credit register introduced. With a view of increasing access of the population, especially in the regions, to banking services, a total of 40 new branches (21 in the regions) were created by 19 banks in 2005 alone.

In total, by late 2007, 485 bank branches were functioning in the country. 9 According to the results of 2007, the amount of credits provided by banks to the national economy was equal to 4. 7 bln. AZN, the share of bank assets and credits in the GDP were 20. 9% and 18. 7%, respectively. Credits provided by banks to the private sector increased by 97. 7% in 2007 compared to the previous years, and its share in the total amount of credit was 57. 3%.

As a result of the privatization of state property, more than 30, 000 small enterprises and facilities have been privatized, about 1, 500 joint-stock ventures established and more than 400, 000 people have acquired shares and property. The main challenges now are to accelerate the second stage through privatization of social facilities, while keeping their original work profile and continuing to provide quality services to the population, and also of large-scale enterprises to promote more dynamic economic development.

With a view to improving transparency, efficiency and targeting in the budget process, relevant additions and amendments have been made to the Law on the “ Budgetary System” and the Tax Code, the Programme on Introduction National Accounting Standards has been approved by the Cabinet Decree of July 18, 2005, and computerization of the treasury system continued during the implementation period of the SPPRED.

In order to improve the infrastructure, especially in the regions, large public investments have been made in social and economic infrastructure, including transport, water and sewage, amelioration, irrigation, power as well as health and education facilities.

The construction of the Baku-Tbilisi-Arzurum gas pipeline, the restoration of the Great Silk Way (TRACECA), the implementation of North-South transport projects and the Baku-Tbilisi-Kars railway project (agreement in principle on the construction has been reached) will not only increase regional importance of the country, but also improve the access of the population in these regions to infrastructure and markets and create a solid foundation for entrepreneurship development. 4. 3. SPPRSD and Economic Policy 4. 3. 1.

General Objectives and Targets The priority directions for economic development are as follows: ensuring macroeconomic stability; ensuring balanced and pro-poor economic development through creation of enabling conditions for development of the non-oil sector and expansion of income-generation opportunities, especially in the regions and rural areas. Many of the policy actions and measures in this sector are closely connected with other strategic objectives of the SPPRSD, namely improving good governance and institutional reforms.

Apart from governance, there are other cross-cutting issues which are relevant to this sector, for example, gender issues (it is important that both men and women have equal opportunities to participate in the economic life of the country); and environment (economic development has to be based on sound management of the country's natural resources, in order to preserve them for future generations, and to ensure that the current generation do not suffer from health and other problems related to over-exploitation of natural resources and lack of consideration or pollution effects).

The policy measures in the " Macroeconomic Stability and Economic Growth" section have been grouped as follows: fiscal policy; monetary and exchange rate policy; development of financial markets; investment policy; industry and energy development; development of agriculture and ensuring food security; tourism policy. 4. 3. 2. Fiscal Policy 10 The followings are the main priority directions envisaged under the SPPRSD to improve fiscal policy: improving budget-related legislation; increasing budget revenue; increasing

the efficiency of budget expenditure; improving the mechanism for managing state debt.

In line with the economic policy to be implemented, and in order to increase the efficiency of budget forecasting, the existing legislative framework will be reviewed, relevant changes made to the Tax and Customs Codes, and adjustment of the Customs Code to international conventions and standards completed. With regard to increasing budget revenue, the number of tax exemptions will be reduced, unnecessary customs and tax privileges removed, the registration of tax evasion by legal and physical entities strengthened.

At the same time, the rates for taxes and duties and social contributions will be revised, their optimal level identified, the mechanism for implementing the simplified tax regime and regulations on the application of VAT improved, and the VAT exemptions in import reduced to the minimum. In addition, public awareness will be raised to improve tax culture in the society. Increasing the efficiency of budget expenditure envisages implementation of activities in the following sub-areas: rationalizing budget expenditure; strengthening control over budget expenditure; increasing the transparency of the budget process.

In order to rationalize state budget expenditure the structure of consolidated budget expenditure will be improved, the severe increase of consolidated non-oil budget deficit in the GDP prevented, budget expenditure forecasted and planned taking into consideration approved targeted programs. In addition the legislative framework for introduction of per capita funding in budget expenditure will be established.

With regard to strengthening control over the use of budget funds, the legislative framework will be improved, the role of long-term planning in the budget process increased, and financial control over budget funds enhanced through regular routine revisions and analyses. In order to increase the transparency of the budget process, the state procurement legislative framework will be improved, the monitoring system strengthened, electronic procurement introduced, and the regulations and standards used in the calculation of budget expenditure improved.

At the same time, the institutional framework of state procurement will be strengthened, and professional capacity of the relevant staff increased through training. The state debt management mechanism will be improved, the foreign debt, especially commercial credits received under state guarantee will be regularly reflected in the state budget. Also, the mechanism for monitoring the financial activity of organizations which have received credit under state guarantee will be improved. . 3. 3. Monetary and Exchange Rate Policy Considering the importance of projected oil revenues for the country's development, ensuring macroeconomic effectiveness of the monetary policy will be prioritized. For this purpose strengthen sterilization capacity of the monetary policy, maintain the optimal trajectory for the non-oil deficit, regular and adequate design and implementation of MTEF, prevention of longterm rigidity of the real effective exchange rate will be envisaged.

As a result targetting of inflation at a satisfactory level will be ensured. 11 At the same time, the institutional framework of the monetary policy will be developed to allow more adequate decisions in monetary policy, and the

system of management of monetary policy tools, banking system liquidity and currency reserves improved. Also, the real sector monitoring system will be established and bank statistics adjusted to international standards to increase automatic access to statistical reports. 4. 3. 4.

Financial Markets Development The following priority areas have been identified under the SPPRS to develop financial markets: developing the banking sector; developing the securities market; developing the insurance market. With regard to developing the banking sector, the capitalization of the banking system through the increase of chartered capital of the banks will be continued, Basel II standards introduced, the electronic payment system developed and the system of deposit insurance established in order to adjust the banking system to international standards and to improve the system of banking supervision.

The banking, micro-finance institution and credit union networks will be expanded in the regions, a postal deposit system established as well as specialized banks, including construction-deposit banks in order to provide the population, and in particular entrepreneurs, with broader access to banking services, especially in the regions. Also, the system of mortgage crediting will be developed and the access of people, especially vulnerable groups, to mortgage loans will be increased to help people improve their housing conditions.

The establishment of an equal and competitive environment in the banking services market will be supported through expansion of the potential of private banks, more active attraction of foreign investment into the banking system and use of administrative anti-monopoly measures. With regard to <https://assignbuster.com/azerbaijan-poverty-rate/>

developing the securities market, the current legislative framework will be improved and a system aimed at protecting the rights of fixed-rate securities investors will be established. The system for making settlements will be improved and new branches of regional professional representatives of the securities market, including the National Deposit Center, will be established in order to expand and develop the securities market. The establishment of selfgoverning (non-government) bodies of professional stakeholders of the securities market will be encouraged, a system for monitoring of joint-stock companies created, the use of securities in the mortgage market expanded and a security operations database created to improve market regulation.

In order to integrate with the international securities market and to more actively attract foreign investment, the issue of Eurobonds and creation of investment funds will be supported. As for developing the insurance market, legislation relating to insurance will be improved, insurance and re-insurance activity encouraged and a single register on foreign re-insurers and foreign insurance brokers created to adjust the insurance market to international standards and to increase its efficiency.

In order to develop insurance activities research and specialized organizations, insurance associations will be established, state control over insurance activities will be improved. 4. 3. 5. Investment Policy The SPPRSD includes the following priority directions for improving investment policy: improving investment management; promoting fair competition; supporting development of entrepreneurship, especially in the regions; strengthening the competitiveness of domestic production and increasing the export

potential of the country; 12 expanding access to information and communication technologies (ICT).

With regard to improving investment management, the existing legislative framework will be improved to protect private property and improve corporate management and create a free competition environment for all investors, and a new “ Law on Direct Private Investment” and other necessary legislative acts will be developed and adopted. Regular (mid-term) 4-year (covering the next year and the subsequent three years) public investment programs will be developed to finance SPPRSD priority investment projects in order to increase the prioritization of public investments in infrastructure.

At the same time, comprehensive long-term sustainable development plans for the cities and regions will be designed and implemented in partnership with international organizations in order to ensure a sustainable and integrated approach in development of the regions, and to increase the efficiency of public investments to the regions. It is also planned to finalize the transition to international accounting standards in enterprises and organizations in order to adjust the activity of national businesses to international standards.

With regard to promoting fair competition, a Competition Code will be adopted, regular monitoring conducted to prevent division of markets and application of agreed prices in the consumption market, and relevant financial sanctions applied when such cases are detected. Also, regular monitoring will be conducted and financial sanctions applied to increase state protection of consumer rights and to ensure compliance with

regulatory acts for the manufacture, import, export and sale (wholesale and retail) of consumer goods.

In relation to supporting entrepreneurship development the cooperation between relevant entities will be promoted, the establishment and development of public associations of entrepreneurs, including professional associations will be supported. Industrial zones (industrial townships and business incubators) will be established for the introduction of know-how and best practice in the development of entrepreneurship; the businesses will be better supplied with information and advice, and regular business forums will be organized to improve relations between local and foreign businessmen.

Increase of amount of soft loans allocated from the state budget for entrepreneurial development and expansion of access of entrepreneurs in the regions to these loans will be ensured, activities will be enhanced to improve crediting effectiveness. Also actions will be taken under the SPPRSD to encourage the business activity among youth and vulnerable groups.

With regard to improving privatization and management of state enterprises, the privatization process will be continued in sectors open for privatization in accordance with the approved state privatization programmes and transparency and efficiency in the privatization process will be ensured. Also, the process of privatization of state shares of “ International Bank of Azerbaijan” will be finalized under the SPPRSD. With regard to strengthening the competitiveness of domestic production and increasing the export potential of the country, it is planned to continue WTO admission talks in order to work toward fuller integration of the national economy to the global economy, and to adjust national legislation on foreign trade to the <https://assignbuster.com/azerbaijan-poverty-rate/>

requirements of the global trade system. At the same time, anti-dumping and other preventive measures will be carried out to protect the domestic market from unfair competition, the production of export-oriented goods and goods that can replace imported goods will be encouraged, national quality control standards will be developed, the certification system will be improved, and the system of state regulation of prices of goods (services) will also be improved.

Local and international transportation management will be improved to expand access to international markets and the integration of national transport system into the global transport system will be strengthened through the " TRASECA" and " North-South" projects under the SPPRSD. 13 As regards expanding the ICT access, in order to create a national information security system and to protect the information rights of citizens, the ICT access will be improved, and higher quality radio-TV broadcasting and satellite communication services will be improved on the basis of new equipment and technology.

At the same time regional information centers will be established to provide state, public and sectoral information resources and to create information systems and networks, and profound and applied scientific researches will be supported to ensure building of the information society. In order to improve state regulation of ICT, and standardization, certification and regulation of radiofrequency and numbering resources will be organized in accordance with international standards.

Also, it is envisaged to upgrade the postal service and to introduce new forms of postal service in order to expand access of the people, especially

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rural residents, to ICT. 4. 3. 6. Industry and Energy Policy A state programme on the development of this sector, outlining the government's medium-term activities, will be adopted under the SPPRS in order to ensure comprehensive development of the industrial sector, including the non-oil sector. Also, in accordance with the "State Programme on Development of the Fuel-Energy Sector of the Republic of Azerbaijan (2005-2015)" approved by the Presidential decree #635 on February 14, 2005 or the purpose of development of the fuel-power complex, implementation of activities will be enhanced to establish a sound competitive environment in this sector, to improve the structure of the sector, to attract bigger investment to the sector, to provide environmental safety, and to ensure that full payment is received for the consumption of fuel and energy resources. The provision of meters to the population will be finalized to ensure efficient use of power and to strengthen financial discipline in the sector, and relevant public awareness activities conducted to promote the thrifty and efficient use of power resources.

In order to increase efficiency in the power sector and to create a more competitive environment, the increase of the private sector involvement in the area will be supported, and the activity of the newly established Azerbaijan Investment Company will be strengthened to meet the investment needs of the non-oil sector, to introduce new technology and knowledge in the area, and to promote strategic cooperation with foreign investors.

The potential use of alternative and renewable energy will be increased through creation of new capacity relying on alternative and renewable

energy sources (small hydro power stations, wind farms), and regular monitoring will be conducted and relevant financial sanctions applied to minimize any negative impact on the environment from the development of the fuel-energy complex. 4. 3. 7.

Agricultural Development and Food Security Since over 48% of the population lives in rural areas, the agricultural sector is still an important source providing relevant employment and income generation opportunities for households. It is important to improve the access of agricultural producers to credit, equipment and other vital inputs and services, while ensuring that land is used in an environmentally sustainable way. First of all, institutional reforms aimed at improving management efficiency will be continued in the sector to help develop agriculture under the SPPRSD.

The policy of exempting agricultural producers from taxes will be reviewed to promote decent employment and self-employment in rural areas, and the access of people involved in agriculture to finance-credit sources improved. Also, the insurance mechanism will be improved to reduce damage to agricultural employers as a result of natural disasters. The “ Agroservice” network will be expanded to improve access of farmers to agricultural machinery and different subsidies and incentive mechanisms designed and introduced to increase 14 the production of needed agricultural products.

The use of up to date technology and provision of the agricultural sector with the necessary market infrastructure through the involvement of the private sector will be supported to encourage the expansion of the network of agro-processing enterprises, and to increase the competitiveness of agricultural products. In order to ensure intensive development of crops, the supply of

fertilizers to farmers will be improved, the standards applied to agricultural products upgraded, and the fumigation (disinfection) of exported and imported agricultural products strengthened.

Private veterinary services will be expanded, and the physical-technical infrastructure of regional veterinary departments, phytosanitary services, plant protection stations and quarantine stations strengthened in order to improve veterinary and plant protection services. The restoration of fertility of pastures, their protection from erosion and their use will be improved to protect the lands, increase their quality and regulate the pasture load. The physical and technical resources of seed-growing, seedling and pedigree facilities will be strengthened to ensure their efficient operation.

In order to provide the agriculture with high-quality specialists, the system of agricultural staff training will be improved, the physical and technical resources of agricultural science strengthened, and trainings, experience sharing and scientific researches done to increase managerial skills and knowledge of farmers. Development of the agricultural sector does not only enhance employment opportunities and expand income generation sources for population groups working for this sector but also plays a key role in strengthening food security.

Recent price rise at the world and local food markets did not pass over and affect population of the country, especially its poor groups, food supplying and living standards. From this prospective, reducing of the local food market dependence from importation and food supply to local population due to local production development has special importance. In order to increase agricultural production and to improve food supply of the country

population the State Program on Secure Food Supply to the Population in the Republic of Azerbaijan for 2008-2015 was approved by the Presidential Decree on August 25, 2008.

With a view of food supply improvement first of all systematic activities will be implemented to develop agrarian business, more effectively use households production capacities, and upgrade consumption customs for promotion of the local foods consumption and production. 4. 3. 8. Tourism Development In order to expand the opportunity to benefit from the tourism potential in the country, to develop employment and self-employment in the regions and to better coordinate activity in this sector, a State Programme on the Development of the Tourism Sector for 2008-2016 was drafted.

The legal and regulatory framework will be improved to promote tourism activity. Considering the importance of infrastructure in the development of tourism, the PIP envisages activities related to restoration of roads, communications, and electricity and gas supply in the regions. In addition, ecotourism, rural tourism and other alternative types of tourism will be developed and tourist routes established to provide access to the country's national, historicalcultural, socio-economical and natural features.

The capacity of the newly established Tourism Institute and Mingachevir Tourism College will be developed under the SPPRSD to improve the staff training system for tourism and to supply it with high-quality specialists. In order to strengthen awareness-building and publicity activities in the tourism sector, the performance of existing information centers will be improved and new 15 tourism information centers established in the Airport named after H. Aliyev, the Gala village and Imishli, Ismayilly, Gabala and Masalli regions.

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Chapter 5 Employment Policy and Social Protection of the Population 5. .
Employment Policy and Labor Market Regulation 5. 1. 1. Link to Poverty
Maintaining macroeconomic stability and ensuring economic growth, development of the non-oil sector lead to an increase in monetary income of the population. But in order to achieve poverty reduction, macroeconomic stability and economic growth need to be accompanied by policies which improve access of the poor population to work income and production assets. From this prospective system measures aimed at supporting business and promoting employment create favorable conditions for increased income generation opportunities.

Employment related issues are outlined in the section above. These issues are also specified in relevant sections of the SPPRSD. This chapter focuses at reducing unemployment, improving social protection of the unemployed, developing labor market as well as promoting employment for vulnerable groups of population. 5. 1. 2. Current Situation and Main Challenges It is well known that unemployment is a main factor which is associated with greater poverty risk. According to calculations made under the ILO methodology there were more than 281, 100 unemployed in 2007 or 6. 5% of the active population.

Considering the importance of increasing employment opportunities in order to improve the population's welfare, under the State Program on Socio-Economic Development of Regions for 2004-2008 and other relevant programs about 672, 000 new jobs were created. Business development and creation of job places in this period have contributed to implementation of the well thought employment strategy and social policy. Last 5 years

nominal cash incomes of the population increased 2.5 and reached to 14.3 bln. AZN in 2005 or 1,690.3 AZN per capita. Cash incomes of population included wages (31. %), business profits (50.4%), received current and considerable remittances (17.2%) and income from property (0.5%). The government employment policy provides support to the unemployed through a combination of active and passive measures. The passive measures mainly include the provision of unemployment benefits. In 2007, 2,523 unemployed received unemployment benefits minimum amount of which is 24 AZN. The active measures include organization of training courses and job fairs and many other activities aimed at creating and improving labor market and adjusting labor force to the economy needs.

One of the main challenges is to further expand productive employment opportunities for population, especially in the non-oil sector. While share of the extractive industry in overall industrial production was 68% in 2007, it only employs 1.1% of the labor force of the country. While employment creation will be achieved mainly through private sector development in the sectors outlined above, it will be important to continue to undertake measures to help match the skills of jobseekers with those in demand on the labour market.

It is also important to ensure that employees' rights are protected, and that there is reliable and regular data to allow monitoring of the labor market and employment situation. The improvement of wage regulation is another challenge. As was shown in the poverty results reported in Chapter 2, employment does not always protect individuals from poverty, due to the high number of low-paid and low-productive jobs. In recent years, a policy of

increasing a 16 minimum wage to minimize the poverty risk among the employed has been pursued. Thus, the minimum wage has been increased, by stages, from 5.5 AZN up to 60 AZN since 2003.

Another problem relates to significant discrepancies between wage levels of those occupying the same positions in the public and private sectors. Thus in 2007 the average monthly wage in public sector was 171.9 AZN and 296.5 AZN, i. e. 1.7 times higher in private sector. Education Health and social services Construction Mining industry Generation and distribution of electricity, gas and water supply 2006 86.4 67.2 198.1 349.4 134.3 2007 144.9 92.5 298.7 515.5 210.3 2006 128.8 150.7 403.8 1,183.2 272.9 2007 186.0 160.7 454.2 1,414.8 198.4 As Table 4.1 shows, wages of people working in private health facilities are 1. , education - 1.3 times, construction - 1.5 times and mining industry - 2.8 times higher than those working in public ones. This leads to the flow of more skilled staff from public facilities to private ones and has a negative impact on quality of services. 5. 1.3. SPPRSD and Employment Policy The SPPRSD envisages activities in the following priority directions under the employment policy and labor market regulation: developing the employment system and strengthening the social protection of the unemployed; adjusting the training of specialists to labor market needs; improving the regulation of labor relations; strengthening labor market monitoring; expanding employment opportunities of the vulnerable groups. As regards developing the employment system and strengthening the social protection of the unemployed, State Programme on Implementation Employment Strategy for 2007-2010 was approved on May 15, 2007 under the Presidential Decree #2167.

Within the framework of activities envisaged by this State Programme the management system of the State Employment Service will be improved, and the legal and regulatory framework for employment and work safety upgraded. Also, a single information database will be created to expand regular access of jobseekers and unemployed to vacancy information, and related awareness-building measures carried out among the people. At the same time, new consulting services and labor exchanges will be established.

More official attention will be given to the vocational trainings aimed at providing job for the unemployed. The minimum amount of unemployment benefit will be gradually adjusted to the national subsistence minimum in order to further strengthen the social protection of the unemployed. Meantime in order to prevent inactivity and dependency of job seekers caused by growth of benefit it is envisaged to hold monitoring and to align gradual adjustment with efforts on retraining of job-seekers.

As for adjusting the training of specialists to labor market needs by his Decree #2282 dated of July 3, 2007 the President of the country approved the State Program on Development of Vocational Education in the Republic of Azerbaijan for 2007-2012. It is important to implement following measures in the vocational education section under SPPRSD: establishing direct relations between vocational education system and employers and training of specialists required by employers; 7 launching creation of the National Specialities Structure (NSS) based on the European system of specialities, comparable internationally and with national context shaped by the development of local economy and social sphere. NSS is a locally and internationally accepted multistage system used for measuring the training

results (both formal and informal) which are interrelated and where ratio between all education and training diploma/certificates is established, i. e. interrelated achievements made by trainees and graduates are measured through certificates and diplomas. In this sector a forecasting system will be established and marketing services organized in the educational institutions training skilled workers. Also, in order to develop the adult education system, the appropriate legislative framework will be prepared, a body of adult educators formed, new curricula developed, and resource centers organized for career-guidance and awareness-building purposes.

The adult education system will cover the following directions: educating the adult unemployed, upgrading their skills, providing social and psychological adjustments, preparing for employment in new sectors; updating knowledge and skills of the adult employees, conducting refreshment and retraining courses for them in order to increase their intellectual and scholar level; arranging study and social adaptation of the adult IDPs and refugees; delivering training to the adult disabled that will promote to their re-integration.

At the same time, a database will be created and the existing statistics improved in order to ensure efficiency and sustainability of adult education measures. Effective arrangements within this system will help citizens to participate in economic and social life especially to those affected by economic restructuring to acquire new skills which will make them more competitive on the labor market. As regards improving the regulation of labor relations, an Action Plan will be developed and implemented for

legalization of informal labor relations, as well as, control over conclusion of collective agreements and contracts strengthened.

Such issues as provision of employment and social protection of workers will be further focussed in the above mentioned agreements and contracts. Minimum wages will be gradually increased up to the national subsistence minimum and since 2011 it will exceed that minimum. It will become a substantial factor in elimination of the poverty riskis. The wage system for staff of budget-funded organizations will be improved with consideration of enhancment their financial autonomy and responsibilities as well as promotion of final outcome of this system in order to eliminate disbalance between wage levels aimed at improving overall wage policy.

Measures related hereto will be aligned with those one in Chapter 4 of the SPPRSD that cover introducing normative (per capita) financing in fiscal policy. Also, wage supplements for geographic location and other difficult working conditions will be introduced, and principles identified for unification and payment of wage supplements and bonuses to staff in the public sector. As for strengthening the labor market its regular monitoring will be carried out, and a national information system on the labor market, employment, labor safety regulations and standards established in order to help flexible policy making in this area.

Furthermore, labor migration management system will be improved. 18 As concerns expanding employment opportunities of the particularly vulnerable groups, an Action Plan will be prepared for the development of entrepreneurship and self-employment among women and their retraining, also business training programs will be arranged, and measures introduced

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to improve labor conditions and social protection of those employed in the private sector, especially women.

At the same time, an Action Plan will be prepared to improve gender equality in those sectors where there is a clear gender imbalance, and new jobs created for the population groups in urgent need of social protection. For this purpose, the ILO Convention on employees with family responsibilities will be ratified and the national legislation adjusted to the Convention. 5. 2. Social Protection of the Population 5. 2. 1.

Link to Poverty International experience suggests, while long term poverty reduction will be achieved through economic growth coupled with increasing employment and income generating opportunities in all regions of the country and different sectors of the economy, there will always be vulnerable members of society who will depend on the state system of social protection to help protect them from poverty. The state has a duty to offer these vulnerable groups effective social protection.

Social protection is one, but not the only, mechanism for ensuring that some of the country's wealth is redistributed from the richest to the poorest sections of society. It should be noted that social protection cannot offer any long term solutions to help vulnerable to exit from poverty. International experience suggests that disproportional oversaturation of the social protection sector generate dependency syndrome among people. As a result it affects economic activity and impedes development. In the wide sense there are 3 main elements of social protection. One is a social insurance element, which is designed to elp citizens prepare for times in their lives when they will not be able to earn their own living, e. g old age, sickness,

and unemployment. Social insurance pensions or benefits are based on payments/contributions made by individual citizens during their working years, with some contribution from employers. The other element of the social protection is a social assistance system which consists of targeted state aid and social allowances and is material support paid from the state budget for those who have no insurance, other sources of income or their income is below the established rates.

The third element of the social protection is a social assistance and special social measures system addressed to the especially (socially) vulnerable population groups, i. e. IDPs and refugees, children deprived of parental care, disabled and children with limited health, old and alone citizens, etc. 5. 2. 2. Current Situation and Main Challenges Important measures have recently been undertaken in Azerbaijan to bring the social protection system in line with modern requirements.

As a result of these purposeful measures the separation of the insurance and pension system from