POVERTY ANALYSIS (SUMMARY)¹

1. Demographic Context

1. Azerbaijan’s population is 9.48 million in 2014, with 51% under 30 years old. The increasing old-age dependency ratio will be offset by the relatively high fertility rate and the slow decrease of the child dependency ratio. At the same time, the population growth adds to the acute pressure to create more and better jobs. In 2013, 53% of the population lived in urban areas and 47% in rural areas. A slight increase in the urban population can be observed since the 2001.

2. According to the United Nations Development Programme (UNDP), Azerbaijan has become a “high human development” country. The Human Development Index (HDI), a multidimensional assessment taking into account life expectancy, years of schooling as well as gender equality and income, ranked Azerbaijan 76 out of 187 countries in 2014. Medium life expectancy at birth is 73.9 years. Azerbaijanis are expected to attend 11.7 years of schooling, and they attend 11.2 years on average. The total HDI value was 0.747 based on 2012–2013 data. ²

2. Poverty Status and Trends

3. The government defines poverty as “a multidimensional problem that goes beyond economics to include social and institutional issues.”³ The welfare indicator used in Azerbaijan is per capita consumption expenditure. Each year, the amount of the subsistence minimum is established by law for key social-demographic groups of the population. The subsistence minimum is based on a consumption basket, of which 70% goes to a food basket guaranteeing a daily calorie intake of 2,420 kilocalories. For 2013, the general monthly subsistence level was set at AZN116.

4. In 1989, 33.6% of the population of Azerbaijan was considered poor—three times the average poverty rate in the Soviet Union.⁴ In 1995, 68.1% of the population was living under the absolute poverty line.⁵ Since the early 2000s, Azerbaijan has achieved remarkable success in reducing poverty. According to the World Bank, poverty reduction was driven by strong economic growth, a rise in wages, and successful social protection measures. The International Monetary Fund (IMF) notes that poverty was reduced because of high public spending in the construction and service industries. The social protection index increased from 0.174 in 2005 to 0.187 in 2009, mainly because of an expansion in social insurance and assistance.

5. Absolute poverty decreased. According to the State Statistical Committee, 5% of the population lived under the national poverty line in 2013. This constitutes a dramatic drop in poverty from 49.0% in 2001 to 29.3% in 2005, 10.9% in 2009, and 5.0% in 2013. While absolute poverty has decreased, relative poverty and perceived inequality are growing concerns.

¹ This summary is based on a poverty analysis undertaken by the ADB in 2012. The full analysis is available on request.
6. **Concerns about the poverty line and persons just below or above the poverty line.** With an average wage of AZN410.8 in mid-2013 as well as increasing living costs, the living wage is far below the average wage and therefore not adequate for satisfying basic needs. The current minimum wage is AZN125 and the necessity criteria level (i.e., cut-off point to receive social aid) is AZN100, while the subsistence minimum level is AZN105. While many people could be lifted out of poverty, a considerable number of Azerbaijanis remain just below or above the poverty line. These people suffer from unemployment or underemployment and are particularly vulnerable to external shocks.

7. **Employment and poverty.** Decent employment opportunities are still lacking for many Azerbaijanis. While the employment rate is very high for both men and women, the majority of Azerbaijanis work in low-paying sectors. Only 1% of the workforce holds jobs in the well-paid petroleum sector, which generates about half of gross domestic product. In 2012, unemployment of Azerbaijanis aged 15 to 29 years old was 8.5% for men and 12.2% for women). Average compensation for unemployment is AZN268.5, which constitutes 63.5% of the monthly average wage. While Azerbaijan has experienced an overall growth in jobs, the quality of employment has decreased (e.g., working conditions, rise of the informal economy). According to the International Labour Organization, 44% of the active population works in the informal economy. Since the informally and/or self-employed have no social insurance system, these people are likely to face economic hardship in case of sickness and old age. Unemployment benefits are minimal. Social assistance also needs to be linked to active labor support, including microfinance services and employment programs.

8. **Internally displaced persons and poverty.** Azerbaijan has one of the highest per capita concentrations of internally displaced persons (IDPs) worldwide. According to the State Statistical Committee, 612,326 Azerbaijanis remain internally displaced, corresponding to 6.5% of the total population. Every third IDP lives in the Greater Baku area. In general, the displaced enjoy the same rights as other citizens, and sometimes they enjoy preferential treatment. However, poor housing and a lack of basic services such as water and sanitation are continuous problems. IDPs in urban settings tend to be better off than IDPs in rural areas.

9. **Inequality.** Inequality in Azerbaijan is considered moderate compared with other transition and petroleum-rich countries. Most citizens in Azerbaijan have benefited from the country’s impressive economic growth. In rural areas, the poor have gained proportionally more, i.e., growth has been more pro-poor in the countryside. According to the IMF, the Gini coefficient dropped from 0.42 in 2001 to 0.34 in 2008. Newer data are not available.

10. **Overall good progress on the Millennium Development Goals.** Azerbaijan is committed to achieving the Millennium Development Goals (MDGs) and has integrated the goals in key strategy documents. Progress on the various MDGs has been good. Azerbaijan has been successful in achieving MDG 1 to eradicate extreme poverty and hunger. It will likely achieve MDG 2 (universal primary education), MDG 3 (gender equality and empower women), MDG 4 (reduce child mortality), as well as MDG 6 (combat HIV/AIDS, malaria and other diseases) by 2015. Increased efforts are needed for MDG 5 (maternal health) and MDG 7 (environmental sustainability). The target for MDG 5 is 9.4 maternal deaths per 100,000 live births, but the actual figure was 14.9 in 2012.

11. **Regional differences of poverty have been reduced, but rural poverty persists.** While Baku still enjoys more wealth than the regions, the disparities within the regions as well
as between regions have seen a decline since the early 2000s. Still, poverty has been reduced more rapidly in urban areas than in the countryside.

12. **Who is at risk.** The following groups are at higher risk of poverty: (i) families living in rural areas, (ii) larger families, (iii) children aged 1–15 and adults beyond 50 years of age, (iv) families with a household head being a refugee or compulsory migrant, and (v) persons with a low level of education. Some data indicate that women have suffered economically in the transition period and, despite high employment rates, many of them have been pushed into low-paying sectors and informal work.

13. **Linkages between poverty and energy.** Access to utilities is an important factor in a multidimensional approach to poverty. Although the power network is widespread in Azerbaijan, challenges remain with regard to its quality and reliability. Constant electricity supply is not available for many citizens. It is estimated that only 70% of households have access to electricity for the entire day. In 2009, 90.7% of urban residents had access to gas supply compared with 42% for rural areas. While energy prices are held down by considerable subsidies, they still present considerable costs for Azerbaijanis living around the poverty line.

14. **Linkages between poverty and water supply and sanitation.** Access to water supply and sanitation has improved. Still, large disparities remain in access rates and quality of services between urban areas and rural areas. Unreliable water supply is also evidenced in the capital.

15. In 2009, 87.9% of urban households had access to sanitation compared with 39.8% of rural households. In the same year, 96.1% of urban households had piped water as opposed to 46.6% of rural households. Four out of five persons in urban areas had hot water (81.4%), but only every fifth resident in rural areas (22.6%).

16. **Linkages between poverty and transport.** An efficient transport system is a key factor to sustainable development. About two-thirds of the country’s transport network is estimated to be in poor condition. For an Azerbaijani citizen, this means increased prices of consumer goods caused by high transport costs, long delivery times, long travel times, and decreased road security. It also results in limited access to economic opportunities, education, and social services, especially for rural communities that are largely dependent on agriculture.

3. **Government’s Poverty Reduction Strategy**

17. The key documents related to poverty reduction are (i) the State Program on Poverty Reduction and Sustainable Development, 2008–2015; (ii) the State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan; and (iii) Azerbaijan 2020: Look into the Future.\(^6\)

18. **State Program on Poverty Reduction and Sustainable Development.** Recognizing poverty as a multidimensional problem, the core program for poverty reduction in Azerbaijan is geared toward inclusive growth. The overarching goal is to achieve the status of a high-income country by 2023. Based on this vision, the following nine strategic goals were formulated: (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

---

\(^6\) Azerbaijan 2020: Look Into the Future (accessible from the list of linked documents in Appendix 2).
risks for old age groups, low-income families, and vulnerable groups by developing an 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, and improving the public utilities system; (vii) improving the environment and ensuring sustainable management of the environment; (viii) promoting and protecting gender equality; and (ix) continuing institutional reforms and improving good governance.

19. **State Program on Socioeconomic Development of Regions, 2014–2018.** About 80% of the population lives outside of Baku. Job creation in the regions is a key concern as about 38% of the total workforce is employed in agriculture, producing only 7.5% of the gross domestic product. To tackle widespread regional disparities, the government undertook an analysis of the regions in 2003. Based on the results, the State Program on Socioeconomic Development of Regions, 2004–2008 was drafted and implemented. A successive regional program covered 2009 to 2013. The third state program is building on the success of the previous programs.

20. **Azerbaijan 2020—Look into the Future.** Endorsed in early 2013, the strategy document constitutes the main overall policy guidance for Azerbaijan’s development. It aims at creating a knowledge-based economy, increasing the country’s competitiveness and diversifying the economy to attain sustainable economic growth, and achieving a per capita income of $13,000 by 2020. Infrastructure and technology play a prominent role in the concept, including transport, energy, and finance. The middle class is to be expanded, and regional inequality reduced.

21. **Other relevant strategies.** About 60 state programs, strategies, and concepts are being implemented. Sector strategies and/or master plans are under preparation for energy and transport as well as for the regional development of Greater Baku.

4. **Role of External Assistance to Azerbaijan**

22. Azerbaijan’s needs for external assistance have changed dramatically since the oil boom in the early 2000s. As the country has become wealthier, many development partners have left. In 2011, net official development assistance accounted for a mere 0.5% of gross national income. Also, Azerbaijan established its own development agency and provides outgoing development assistance.

23. Development assistance has shifted to the provision of loans and more technical partnerships (e.g., EU Twinning). Development partners have to adjust their operations to make room for smart, catalytic investments to support inclusive growth in this changed country context. Given the absence of a country-led aid coordination mechanism, a loose development partner coordination mechanism was set up in 2010 and is currently led by the United Nations Development Programme. The Asian Development Bank has joined these efforts, and maintains a regular exchange with partners working in the same sectors to seek synergies and avoid duplication.