



Technical Assistance Consultant's Report

Project Number: 44152
Regional — Capacity Development Technical Assistance (R-CDTA)
August 2012

Republic of Azerbaijan: Updating and Improving the Social Protection Index (Cofinanced by the Republic of Korea e-Asia and Knowledge Partnership Fund)

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For Asian Development Bank

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Asian Development Bank

CURRENCY EQUIVALENTS

\$1.00 = 0.8 New Manats

ABBREVIATIONS AND ACRONYMS

ADB	—	Asian Development Bank
AZN	—	Azerbaijan National Currency (New Manat)
CBA	—	Central Bank of Azerbaijan
GDP	—	Gross Domestic Product
HBS	—	Household Budget Survey
IDA	—	International Development Association
IDP	—	Internally Displaced Person
IFI	—	International Financial Institution
LSMS	—	Living Standards Measurement Study
MDG	—	Millennium Development Goal
MLSP	—	Ministry of Labor and Social Protection of Population
MOA	—	Ministry of Agriculture
MOD	—	Ministry of Disasters
MOH	—	Ministry of Health
NGO	—	Non-government Organization
PTR	—	Poverty Targeting Rate
SCRDP	—	State Committee of the Republic of Azerbaijan on Deals of Refugees and Internally Displaced Persons
SDFIDP	—	Social Development Fund for Internally Displaced Persons
SME	—	Small and Medium Enterprise
SP	—	Social Protection
SPCOV	—	Social Protection Coverage
SPEXP	—	Social Protection Expenditure Indicator
SPI	—	Social Protection Index
SPIMP	—	Social Protection Impact Indicator
SPPRED	—	State Programme on Poverty Reduction and Economic Development
SSC	—	State Statistics Committee
SSPF	—	State Social Protection Fund
TSA	—	Targeted social assistance
TUC	—	Trade Unions Confederation
UN	—	United Nations
UNDP	—	United Nations' Development Programme

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I. INTRODUCTION

A. Background

1. Asian Development Bank's (ADB) development of the social protection index contributed to the strengthening of social protection programs in developing member countries (DMCs). ADB continues its work on updating and improving the Social Protection Index (SPI). The SPI update addresses and incorporates lessons learned from two technical assistance projects¹ that developed the SPI for 35 countries in Asia and the Pacific and introduces new components and institutional arrangements to sustain the effective use of social protection indicators in policy analysis and formulation in the DMCs.

2. These initiatives implemented under the ADB commissioned regional technical assistance project² seeks to (i) improve the methodology in defining social protection for each DMC in order to ensure comparability among DMCs; (ii) improve data gathering for statistical analysis on social protection; and (iii) develop capacity of DMCs in monitoring the SPI and allow comparisons between countries and over time on implementation performance.

3. This country study provides updated information and data on social protection programs and calculates the SPI for Azerbaijan in view of the revised SPI methodology. The SPI can be updated periodically to assess progress in social protection arrangements in the country and analyse deeper aspects of targeting, coverage and expenditures on various social protection programs; for example, on the breadth (coverage) of social insurance versus social assistance or labour market programs, or on the depth (size of benefit) of various categories of social protection. The revised SPI methodology also provides scope to measure the gender responsiveness of programs, and poverty targeting of programs.³

4. The primary objective of the Republic of Azerbaijan Country Report is to present the results of the research on social protection programs and policies in Azerbaijan from all related ministries; summarizing quantitative information on these activities to enable the formulation of a national Social Protection Index (SPI).

B. Definition of Social Protection

5. Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.

6. This definition categorizes all programs under the traditional components of social protection as social insurance, social assistance, and labour market programs. Microfinance as a form of social protection is excluded from the calculation of SPI since it does not involve a transfer in cash or kind and beneficiaries incur loans or debt instead of transfers. Thus, by eliminating microfinance from the coverage of social protection programs, three major programs are left: (i) social insurance (i.e., the categories of old-age insurance, programs for the disabled, and health expenditure on insurance and pensions; (ii) social assistance (i.e.,

¹ ADB. 2003. Technical Assistance for Social Protection Index for Committed Poverty Reduction. Manila (TA 6120-REG); ADB. 2006. Technical Assistance for Scaling Up of the Social Protection Index for Committed Poverty Reduction. Manila (TA 6308-REG).

² ADB. 2010. Technical Assistance for Updating and Improving the Social Protection Index. Manila (TA 7601-REG).

³ To be able to calculate with relative accuracy the poverty-targeting rate of programs, household surveys need to contain a social protection data. However, the data of the survey was not available at the time of writing this report.

the categories of non-contributory health insurance, conditional cash transfers, child protection, and unconditional cash transfers; and (iii) labour market programs as shown in Table 1.

Table 1: Social Protection Categories and Types of Programs

Social Protection Category	Type of Program
Social Insurance Programs	Pensions Unemployment Benefits Health Insurance - but not universal health insurance Other social insurance (maternity, disability benefits)
Social Assistance	Assistance for the elderly (e.g., non-contributory basic allowances for the elderly, old-age allowances) Health assistance (e.g., reduced medical fees for vulnerable groups) Child protection (school feeding, scholarships, fee waivers, allowances for orphans, street children initiatives) Family allowances (e.g., in-kind or cash transfers to assist families with young children to meet part of their basic needs) – excluding any transfers through the tax system Welfare and social services targeted at the sick, the poor, the disabled, and other vulnerable groups Disaster relief and assistance Cash/in-kind transfer (e.g., food stamps, food aid) Temporary subsidies for utilities and staple foods - only if imposed in times of crisis and if targeted at particular vulnerable groups. General subsidies are excluded even if their rationale is to assist the poor Land tax exemptions
Labor Market Programs	Direct employment generation through public works programs – including food for work programs Direct employment generation through loan-based programs – included if loans are subsidized and/or job creation is an explicit objective of the program Labor exchanges and other employment services – if distinct from social insurance and including retrenchment programs Unemployment benefits – if distinct from social insurance and including retrenchment programs Skills development and training – included if targeted at particular groups (e.g., the unemployed or disadvantaged children. General vocational training is excluded).

Source: ADB. 2011. The Revised Social Protection Index: Methodology and Handbook. Manila.

7. There is no formal definition of social protection in Republic of Azerbaijan, but the country has an extensive social welfare system in place that is currently in a state of reform. The state social protection system is divided into two main parts in Republic of Azerbaijan: i) social insurance; and ii) social assistance. The State Social Protection Fund implements social insurance programs while the Ministry of Labor and Social Protection of Population is responsible for social assistance programs.

C. Report Structure

8. The Azerbaijan Country Report is structured as follows:

- (i) Chapter II contains a brief overview of the social and economic development in Azerbaijan.
- (ii) Chapter III describes current social protection activities and programs in the country using ADB's typology.

- (iii) Chapter IV provides an overview of the derivation of SPI and its disaggregation.
- (iv) Chapter V presents the analysis of the country results.
- (v) Chapter VI discusses the conclusion and recommendations.

II. COUNTRY OVERVIEW

9. The chapter provides a brief overview of the socio-economic characteristics of Azerbaijan, main features of the country's current developmental situation and recent trends.

A. Geography

10. The Republic of Azerbaijan is situated on the eastern part of South Caucasus on the coast of the Caspian Sea. The territory of the country is 86,600 sq. km., including the 20% occupied by Armenia. It is the largest of the three South Caucasus states and bordered by Armenia and Georgia to the west, Iran to the south, Russia to the north, and the Caspian Sea to the east.

B. Demographic Profile

11. The population size in 2009 is about 9 million people; 2 million are children aged 0-14 years old and about 1.1 million of the population are aged 60 years and above. Azerbaijan is in a demographic transition, with an increasing population growth due to a relatively higher fertility rate, a recently observed decrease in aging population, and a flattening dependency ratio. More than 90% of the population are Azeris; the rest are Lezgins, Russians, Armenians, Talishes, Avars, Turks, Tats, Tatars, Ukrainians, Sakhurs, Georgians, Kurds, Jews and other national minorities.

12. The average annual population growth rate reaching 0.7% in 2001. Recently, the situation markedly improved with the birth rate increasing to 17.2 per 1,000 live births in 2009. (Table 2). About 165,600 children were born in 2010 and this figure was the highest in the last 16 years.⁴

Table 2: Population of Azerbaijan

	Unit	2009
Population at the beginning of the year	thousands	8,896.9
<i>urban population</i>	% to total	53.1
<i>rural population</i>	% to total	46.9
Share of population under 15 years old	%	22.6
Share of population aged 15-64 years	%	70.6
Share of population aged 65 years and older	%	6.8
Live births	per 1,000 population	17.2
Deaths	per 1,000 population	5.9
Natural growth	per 1,000 population	11.3

Source: State Statistical Committee (SSC). 2011. *Azerbaijan in Figures*. <http://www.azstat.org>

⁴ SSC. 2011. *Azerbaijan in Figures*. www.azstat.org.

13. The population was split between urban and rural areas at 53.1% and 46.9%, respectively in 2009. There is a trend of growing urban population due to migration from rural areas with relatively lower income-generating opportunities and poor infrastructure. Thus, the share of urban population grew from 50.7% in 2003 to 53.1% in 2009.

14. The high birth rate causes the increase in the number of children and youth in the country. According to official demographic data, the number of population aged 0-30 years old increased by 1.6% from 2008 to 2010. However, due to the trend in population growth over a long period of time, the share of children and youth (ages 0-30) in overall number of population tended to decrease. The share of people under working age decreased as well from 23.2% in 2008 to 22.6% in 2010. On the contrary, the number of working age population grew by 3.3%, and its share of the total population increased from 67.5% to 68.0%. The share of population over working age is almost stable at 9.3% during this period.

15. Generally, the trend in age groups leads to a diminishing dependency ratio. At the same time, the recent increase in birth rate will reverse this trend in the coming years and increase the burden on the working age population and social protection system. The burden will be higher in rural areas due to high fertility rates and low income-generating opportunities.

Table 3: Distribution of Population by Age Groups

Percent to total population	
2009	
Total population	100.0
0-4	8.2
5-9	6.4
10-14	8.0
15-19	10.5
20-24	10.2
25-29	8.6
30-34	7.3
35-39	7.1
40-44	7.7
45-49	7.8
50-54	5.8
55-59	3.6
60-64	2.0
65-69	2.0
70 and over	4.8
<i>of which: from total population:</i>	
under the working age	22.6
in the working age ⁵	68.0
over the working age	9.3

⁵ Male at age 15-61, female at age 15-56.

Source: SSC, 2011. <http://www.azstat.org>

C. Economy

16. Azerbaijan is an upper-middle-income country with moderate population growth. Average living standards are improving, and according to official administrative data, GDP per capita is \$5,018 in 2009 as shown in Table 4. GDP increased by 59% in real terms from 2006 to 2010.⁶ GDP growth is 5% in 2010 which is slower than the previous years due to the financial crisis and falling oil prices.

Table 4: Gross Domestic Product at Market Prices

Year	New Manats, million	US dollars, million	Per capita	
			New Manats	US dollars
2008	40,137.2	48,852.5	4,603.7	5,603.3
2009	35,601.5	44,297.0	4,033.2	5,018.2
2010	41,574.7	51,799.9	4,653.3	5,797.8

Source: SSC. 2011. Azerbaijan in Figures. <http://www.azstat.org>.

17. After years of hyperinflation in the early 1990s, inflation was kept relatively steady at low levels until early 2004. This trend has continued with inflation reaching almost 16.7% in 2007 and exceeding 20% in 2008. In 2009, inflation has fallen dramatically to 1.5%, driven by falling international commodity prices and lower domestic and external prices. It increased again in 2010, reaching 5.7% fueled by rising food prices and the Central Bank's expansionary policy.

18. Government revenues increased by 10% in line with the recovery and GDP growth in 2010 as shown in Table 5. A major increase in the structure of Government revenues is reflected in asset taxes (58%), land taxes (34%), and non-tax revenues (18%). This enabled increased government expenditure on health, education and social security.

Table 5: Government Revenues and Expenditures

Item	2008	2009	2010	Increase 2005-2010
Total revenue and grants (million New Manats)	10,762.7	10,325.9	11,402.5	555%
As % of GDP	27%	29%	27%	
Total Expenditure (million New Manats)	10,774.2	10,503.9	11,766	550%
% Education	9%	11%	10%	317%
% Health	3%	4%	4%	372%
% Social security and welfare	8%	10%	10%	368%
% other	80%	75%	77%	670%
Total	100%	100%	100%	

Source: SSC, 2011. <http://www.azstat.org>.

19. GDP almost tripled during 2005 to 2009, but imports slowly increased to only about 24%. Exports increased more than twice during this period and oil constituted the main export. Household individual consumption tripled during this period driven by an increase in population income.

⁶ SSC, 2011. www.azstat.org.

20. Investments of AZN 13.9 billion or \$17.4 billion were made to the Azerbaijan economy by both foreign and domestic sources in 2010. Azerbaijan is also an exporter of investments, investing \$4.8 billion in foreign countries during 2003 to 2010.

21. Currency reserves covered the country's total debt, including private sector debt and public sector debt, more than three times in 2010. These currency reserves amounted to 9.5 billion, which became one of the most important indicators of macroeconomic stability in the country during the crisis. The share of foreign currency reserves to GDP is 60%.

22. During the crisis, the Government transferred large amounts of currency reserves, largely formed from oil sector revenues, to the state budget, which helped ensure functioning of Government services, including the social protection system. About AZN 4,915 million was transferred from the State Oil Fund to the state budget in 2009. This amount accounted for 40.4% of total budgetary revenues. Sustainability of social expenditures largely depends on economic activities in the oil sector with the non-oil sector deficit in the state budget covered by oil revenues.

23. Trade turnover with foreign countries increased by 34.3% in 2010 compared to the previous year, amounting to \$27.96 billion. The share of export is 76.4% and about \$14.7 billion of positive balance existed in the foreign trade turnover during the referred period. Humanitarian and technical assistance provided to the Republic of Azerbaijan is \$32.8 million in 2010.

D. Poverty and Inequality

24. Azerbaijan saw a substantial reduction in poverty in the last decade, owing to the remarkable growth, including policies and programs that improved the distribution of wealth. Poverty was widespread in Azerbaijan in 2003 when 44.7% of the population lived below the national poverty line of AZN 35.8. However, the situation improved significantly and poverty rate decreased to 9.1% of the population. Seizing the opportunity afforded by the oil boom, Azerbaijan successfully embarked on its development objectives of maintaining macroeconomic stability and poverty reduction. State programs on poverty reduction and socio-economic development of regions, sector programs and other measures helped improve the country's welfare.

Table 6: Poverty line, eligibility criteria and poverty incidence, 2003-2010

	2008	2009	2010
National poverty line (manats)	70	84	87
Eligibility criteria for social assistance (manats)	55	60	65
Minimum wages (manats)	75	75	85
Basic pensions	75	75	85
Poverty incidence (% of population living below the national poverty line)	13.2	11.0	9.3

Source: Household Budget Survey; State Statistics Committee.

25. The State Program for Poverty Reduction and Sustainable Development (SPPRSD) in the Republic of Azerbaijan 2008-2015 was approved and is currently being implemented. This program aims to continue the positive process in improving the population's welfare through (i) ensuring sustainable economic development; (ii) increasing income generating opportunities to benefit the poor population; (iii) reducing social risks for old age, low-income,

and vulnerable groups; (iv) continuing systematic implementation of activities that improve the living conditions of refugees and IDPs; (v) ensuring equal access to affordable basic health and education services; (vi) developing social infrastructure and public utilities; (vii) ensuring sustainable management of environment; (viii) promoting gender equality; and, (ix) continuing institutional reforms and improving good governance.

26. Poverty level among IDPs, similar with the overall population, appears to have been decreasing in recent years. However, there is quite a lot of differentiation within the group, with some extreme poor, faring better than the non-IDP population. According to the SPPRSD, the poverty incidence among IDPs is 25% in 2009, compared with 63% in 2001. The highest poverty incidence among IDPs and refugees is observed in rural settlements. In urban areas, the poverty level is almost the same as the local population. This suggests that employment opportunities are higher in urban areas. Limited opportunities in having access to land influences the employment status of IDPs in rural areas.

27. The minimum wage increased by 13% in 2010 and reached 85 manats. The subsistence minimum was approved at 87 manats at the national level (Box 1); it was also set 96, 68 and 72 manats for the economically active population, pensioners and children, respectively.

Box 1. Calculation of National Poverty Line Subsistence Minimum in Azerbaijan

National poverty line is based on the cost of a minimum food consumption basket, which guarantees a daily calorie intake of 2,200 kilocalories for an average person. The food share in the total minimum consumption basket is calculated at 70%, which corresponds to the actual food share in the household expenditure structure as reported in the Household Budget Survey results.

Subsistence minimum is identified in accordance with the Law Number 768-IIQ of the Republic of Azerbaijan on Subsistence Minimum dated 5 October 2004 as a social norm constituting the sum of the cost of minimum consumption basket and compulsory payments. Subsistence minimum is identified on a yearly basis and approved in line with the State budget. The approved subsistence minimum at the country level forms the basis for identifying the eligibility criteria for minimum wages, basic pensions, benefits, pensions, other payments targeting state social assistance. It is approved for the general population, working-age population, pensioners and children.

Eligibility criteria is approved annually along with the State budget for allocation of targeted state social assistance, on the basis of subsistence minimum by main social and demographic groups within the population.

28. According to the Azerbaijan Living Conditions Assessment Report, Azerbaijan's system of social transfers is extremely important for poverty reduction. Without social transfers, the overall poverty incidence would increase by almost 60% and the poverty conditions would worsen.⁷ The impact of pensions and targeted social assistance program on poverty reduction is 6.8 percentage points and 4.6 percentage points, respectively. The Gini coefficient of the per capita consumption increases from 31.0% to 34.65% (or a 15% increase) when social transfers are removed from household consumption. Thus, results of the Living Standards Measurement Study conducted by the Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan and World Bank suggest that expenditures spent on social assistance measures equal to 1% of GDP decreases poverty

⁷ World Bank. 2010. Azerbaijan Living Conditions Assessment Report.

incidence by 2.5 percentage points, poverty gap by 1.3 percentage points, and poverty severity by 0.9 percentage points.⁸

29. The State Program on Targeted State Social Assistance has been implemented since 2006. About 144,844 families or 657,317 individuals received benefits in 2010. The monthly targeted state social assistance per capita increased 3 times from 2007, reaching 24.97 manats in 2010. The share of the poorest quintile of the population in the national income increased by 5%, at 14.2% in 2010, although lower compared to 2008 by 3.1 percentage points. This reflects the existence of problems associated with inequality in the country.

30. According to the World Bank 2010, inequality in Azerbaijan which is moderate compared to other oil-producing countries and former Soviet Union countries, declined by nearly 15% from a Gini index of 36.5% in 2001 to 31% in 2008 as a result of pro-poor policies implemented in the country (Table 7).⁹ Economic growth has generally been broad-based and pro-poor, lifting the consumption of all income groups. However, gains have been uneven. Inequality in cities is higher with a Gini of 32.8%, while it is declining in rural areas (28.7% in towns and 27.1% in rural areas). While overall rural consumption growth rates have been lower, the poor have proportionally more gains. Conversely, growth in urban areas has been more broad-based, with the majority of the population in the middle income groups benefiting more. Thus, the indicator declined from 32.3% in 2001 to 27.6% in 2008 in rural areas, and from 39.7% to 32.6% in urban areas during the same period.

Table 7: Inequality in Azerbaijan in 2001 and 2008

	Bottom half of the distribution		Upper half of the distribution		Interquartile range	Tails	Gini index
Total	p25/p10	p50/p25	p75/p50	p90/p50	p75/p25	p90/p10	
2001	1.38	1.43	1.52	2.33	2.17	4.62	0.365
2008	1.33	1.39	1.42	2.04	1.97	3.75	0.310
Urban							
2001	1.34	1.39	1.58	2.60	2.19	4.83	0.397
2008	1.37	1.40	1.47	2.11	2.06	4.05	0.326
Rural							
2001	1.44	1.41	1.46	2.09	2.06	4.25	0.323
2008	1.30	1.34	1.39	1.88	1.86	3.28	0.276

Source: Household Budget Survey 2001 and Living Standards Measurement Study 2008.*

Quoted in World Bank. 2010. *Azerbaijan Living Conditions Assessment Report*.

*Note: To establish comparability between the 2001 HBS and the 2008 LSMS, we adapted a version of the Small Area Estimation (SAE) methodology developed by Elbers, Lanjouw and Lanjouw (2003) and imputed the definition of consumption from the 2001 HBS into the 2008 LSMS.¹⁰

31. Other measures of inequality such as the decile dispersion ratio, which presents the ratio of the average consumption of the richest 10% of the population divided by the average consumption of the bottom 10%, also show a decline in inequality. The decline in inequality has important implications for growth and social cohesion. The distribution of consumption

⁸ The Living Standards Measurement Study (LSMS) was conducted among 6,000 households (including treatment and control groups) by the Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan in cooperation with the State Statistical Committee and the World Bank in 2008.

⁹ The latest available data calculated for this indicator is for 2008 from the World Bank. 2010. *Azerbaijan Living Conditions Assessment Report*.

¹⁰ Elbers, Chris, Lanjouw, Jean O. and Peter Lanjouw. 2003. *Micro-Level Estimation of Poverty and Inequality*. *Econometrica*, 71(1): 355-364. January.

and the associated level of inequality in a country, region, or population group is an important dimension of welfare since most individuals or households pay attention to their relative position in society. While rural areas generally have low inequality, there is a relatively large improvement in inequality in urban areas, declining by nearly 18%.

32. There are also certain concerns about the reliability of inequality data in the country. According to the Azerbaijan Household Budget Survey, which is the main source of information for poverty analysis in the country, there is an unusually low value of inequality as measured by the Gini coefficient. For example, for the period from 2002 to 2005, the Gini coefficients of consumption expenditures were in the range of 16%-18%. These are among the lowest Gini coefficients ever observed in any country. It is very unlikely that Azerbaijan is the most equal country in the world being a post-Communist country and a large oil exporter, which are factors generally associated with high inequality. Thus, the impact of economic growth on wealth distribution of wealth has remained largely unclear due to lack of relevant data.¹¹

33. There is an increase in expenditure in education with constitutes AZN 1.3 billion in 2010 or 10% of the total budget expenditures, 11.2% more than 2009. Most schools are state-owned, although the number of private schools increased recently. There are no private schools in 2000, while in 2010, there are 17 private day schools. There is a decrease in the number of pupils studying at general secondary schools by 19%, from about 1.69 million pupils in 2000 to 1.37 million pupils in 2010.

34. According to official statistics, net enrolment rate in primary education increased over the last 20 years and reached 99.7% in 2010. Completion rate in primary education constituted 100% during last three years. Literacy and education is considered to be a significant factor in reducing the risk of poverty, and provision of free secondary education at state-owned schools is an effective way of breaking the poverty cycle, and reducing potential costs on social protection.

35. Literacy rate during 2008-2010 is 100% and this is the maximum result.¹² There is also a significant improvement in poverty reduction with the population below the national poverty line decreasing from 49% in 2001 to 9.1% in 2010 as a result of the implementation of state programs and social-economic development of the country.

36. Azerbaijan has also committed itself to achieve poverty reduction and the promotion of human development within the framework of the Millennium Development Goals. Reforms are implemented and relevant legislative framework established between 2001 and 2009 to achieve the MDGs. The laws of the Republic of Azerbaijan on subsistence minimum, targeted social assistance, social benefits and labour pensions, as well as other legal acts, were adopted. Moreover, various state programs in different areas related to the MDGs are prepared and currently being implemented.

E. Employment and Labor Force

37. There are about 48% employed and 12% unemployed or underemployed in Azerbaijan in 2009. The share of males is 29% more than females in the composition of registered unemployed people.

¹¹ Ersado, Lire. 2007. "Azerbaijan's Household Survey Data: Explaining Why Inequality Is So Low." World Bank Policy Research Working Paper No. 4009. September 2006. Washington, D.C. Quoted in World Bank. 2010. *Azerbaijan Living Conditions Assessment Report*.

¹² SSC. 2011. Millennium Development Goals indicators.

38. Only 15.1% of all unemployed are registered in employment service offices, revealing low coverage and effectiveness of labour market programs. This ineffective system of registration of the unemployed population impedes the State Employment Service from ensuring an adequate level of provision for labour market programs. There is a 97% decrease in the number of people receiving unemployment benefits during 2009 to 2010.

39. The share of people employed in public sector of the economy decreased in recent years from 30% in 2008 to 26% in 2010. The share of people employed in private sector increased 69.7% in 2008 to 73.6% in 2010. The number of independently employed people in the non-state sector of the economy is about 755,900, which accounts for almost one fifth of the entire workforce. Persons involved in unregistered labour activity or the informal sector and those in temporary employment also constitute a large share of the workforce.

40. According to the Minister of Labor and Social Protection of Population, there is a large informal employment in the country, reaching two-thirds of total employed population in 2008, and causing some problems in pension system coverage.¹³ Informal employment is widespread among women as well. According to the Chairman of the Trade Unions Confederation, 61.9% of employed women are in informal sector in 2009 compared to 32.7% in 2005.¹⁴

41. Despite a contraction in GDP growth, there are 73,613 new job placements in 2009 and 73,009 in 2010. Average nominal wages increased by 9% in 2010. Average wages in the private sector is 1.5 times higher compared to the public sector (Table 8). The average monthly wages of employees engaged in construction, one of the largest sectors of the economy, increased by 12.4%, reaching AZN 505.7 in 2010.

Table 8: Average monthly nominal wages in 2010

Activities	Average Monthly Nominal Wages (in Manat)		
	Total	State sector	Non-state sector
In economy, total	325.0	271.6	427.4
Agriculture, forestry and fishing	160.0	144.2	191.0
Mining	1,052.2	681.3	1,551.9
Manufacturing	319.2	335.4	308.3
Electricity, gas, steam and air conditioning supply	351.1	344.6	418.0
Water supply; sewerage, waste management and remediation activity	196.0	187.1	277.4
Construction	505.7	363.0	627.9
Wholesale and retail; repair transport means and home appliances	281.8	207.2	282.9
Transportation and storage	376.5	336.9	535.6
Accommodation of tourists and public catering	322.3	369.0	321.0
Information and communication	526.0	360.3	865.5
Financial and insurance activities	982.7	727.7	1,010.1
Real estate activities	167.6	140.0	295.2
Professional, scientific and technical activities	590.5	280.5	1,405.2
Administrative and support service activities	529.9	409.4	814.2
State management and defense; social security	370.0	417.2	136.4
Education	264.7	264.5	277.7
Human health and social work activities	155.0	151.6	245.6

¹³ Lent.az online news agency. <http://www.lent.az/news.php?id=13074>.

¹⁴ Ulfet, newspaper of Azerbaijan Trade Unions Confederation. <http://ulfet-az.com/print/sendika/3345>.

Art, entertainment and recreation	207.8	163.8	1,075.2
Other service activities	278.6	228.4	292.9

Source: State Statistics Committee. 2011. Azerbaijan in Figures.

42. The number of persons with official unemployed status registered in employment service offices in 2010 is 5% lower than in 2009 and 31% lower compared to 2005. There are about 3,921 persons receiving professional training courses. In 2009, the distribution of unemployed persons is about 56% male and 44% female.

F. Health

43. The improvement in the country's health system has been achieved with the overall development of the economy. The health sector allocation of the state budget was AZN 115 million in 2006, reaching AZN 429 million in 2010. This enabled the construction of new medical centers equipped with up-to-date technology and modern equipment.

44. The number of physicians increased from 2006 to 2010, reaching about 32,800. Due to the growth in population size, the number of physicians per 10,000 people decreased from 37.4 to 36.6. The salaries of medical workers increased by 5 times over the last 5 years.

45. Life expectancy at birth increased due to improved medical care. Household expenditure on healthcare increased by 22.5% in 2009, with households spending 4.4 manats per month for medical care.

46. Maternal mortality rate per 100,000 live births dropped from 24.3 in 2009 to 15.7 in 2010 (Table 9). Maternal mortality rate is an important indicator reflecting the status of public health and the development of the health care system. Table 9 shows maternal and infant mortality rates from 2008 to 2010.

Table 9: Maternal and Infant Mortality

Year	<u>Maternal Mortality</u>		<u>Infant Mortality</u>	
	Persons	Per 100,000 live births	Total	Per 1000 live births
2008	40	26.3	1,715	11.4
2009	37	24.3	1,731	11.3
2010	26	15.7	1,843	11.2

Source: State Statistics Committee. 2011. Azerbaijan in figures.

47. Attendance of competent medical staff during birth is of high importance for maternal health. Births without the participation of competent medical staff increases the risk of infant and maternal mortality. According to official statistics, the share of births attended by competent medical staff tended to be high in recent years, about 99.4% in 2010. The Action Plan on the Protection of Maternal and Child Health for 2006-2010 aims to strengthen maternal and child health, protect the reproductive health of the population, create the necessary conditions conducive to birth of healthy infants, and decrease child and maternal morbidity and mortality cases.

48. Azerbaijan made considerable progress in reducing infant mortality and under-five mortality rates since 2000. According to the State Statistical Committee, the infant mortality rate decreased from 25.3 per 1,000 births in 1991 to 11.2 in 2010. The rate is higher in urban areas (14.5 per 1,000 live births) compared to rural areas (8.1 per 1,000 live births). There has also been a reduction in under-five mortality rates from 40.5 per 1,000 live births in 1990 to 14.4 in 2010. The main causes of death among children under one year old are

diseases of the respiratory system, congenital anomalies or development defects, conditions originating in perinatal period, diseases of the nervous system, and some infectious and parasitic diseases. The percentage of 1 year-old children immunized against measles is 93.1 in 2010, the lowest rate in the last 16 years.

49. Several measures have been taken in order to prevent infant mortality. A nation-wide epidemiological control activity is implemented for elimination of measles and rubella, as well as congenital rubella syndrome. The State Program on Combating Congenital Blood Diseases of Hemophilia and Thalassemia for 2006-2010 was approved in 2006 to strengthen measures in combating congenital blood diseases of hemophilia and thalassemia and preventing its spread among children.

50. Concrete measures were undertaken to improve medical services related to congenital blood diseases of hemophilia and thalassemia, provide the necessary treatment, and prevent the spread of diseases. Patients suffering from congenital, oncological, and infectious diseases receive free medical treatment and medicine from the State. Moreover, patients with hemophilia are provided with medicines for blood coagulation and patients with thalassemia are issued iron expelling medicines. Patients also receive laboratory examinations aligned with international protocols and the Thalassemia Centre was constructed in the city of Baku in 2009 to ensure that treatment of patients with thalassemia are aligned with modern standards.

III. CURRENT SOCIAL PROTECTION PROGRAMS AND ACTIVITIES

51. This chapter presents an overview of the data collection process, objectives, and current social protection activities in the Azerbaijan including challenges and difficulties encountered during the course of the study. The two-fold objective of this chapter is to present the main features of the social protection programs in the country and provide quantitative information that will serve as the basis for the formulation of the Social Protection Index.

A. Data Collection

52. Relevant information and data was collected using Government statistics and reports, household survey data, and interviews with agencies responsible for social protection programs. Interviews were also conducted with representatives of private and public sector agencies, NGOs and international agencies. Data gaps were filled by consultant estimates.

53. The difficulties encountered during data collection include lack of data accuracy with conflicting figures from different sources. Furthermore, data on social assistance programs and implementation of projects by international organizations are only provided in general form, which complicates disaggregation among beneficiaries.

B. Social Assistance Programs

54. The two major social assistance programs in Republic of Azerbaijan include the social assistance and welfare programs and the child protection programs. The former consists of the state social pensions or state social benefits program; targeted state social assistance program for low-income families; free medicine program; utility and power subsidies for selected groups; social assistance for the disabled; disability pensions; and social assistance to internally displaced persons or IDP's. Child protection programs, on the other hand, consist of benefits for martyr's children; benefits for orphans; free textbooks; disabled children; education to IDP's children; and disaster relief. Many social assistance

programs are now targeted and reflect the reforms of the social welfare system to prioritise vulnerable groups. These programs are primarily implemented by the Ministry of Labor and Social Protection of Population (MLSP).

1. State Social Pensions for Selected Groups

55. State social pensions are one of the largest government programs implemented since 2001. State social benefits program include old age pension for those without work experience, disability benefits (e.g., benefits for disabled children under 18 years of age with limited health and children of war veterans or victims of the Chernobyl disaster), and death benefits (e.g. benefit for the loss of the head of family).

2. Assistance to Low Income Families

56. The targeted state social assistance program for low-income families is implemented by the Ministry of Labour and Social Protection of Population in 2006. Households with per capita incomes level of less than AZN 65 are eligible to receive monthly targeted state social assistance benefits. This program aims to reduce poverty in the country. According to the State Statistical Committee of Azerbaijan, the poverty rate in 2010 is 9.1 %. About AZN 180 million is allocated from State Budget and about 144,844 families or 657,317 people benefited from this program in 2010.

57. Benefits for the low-income families with babies also benefited from social assistance. This program implemented by MLSP, targets social assistance to families with children under 1 year old. The amount of benefit for each child is AZN 20. This program covers over 11,000 people in 2010.

3. Free Medicine

58. Paid services were abolished in hospitals financed by the state budget under the order of the Ministry of Health. Free medicines are provided for some vulnerable categories of the population (e.g disabled; pensioners; diseased with diabetes, heritage blood diseases, renal impairment, tuberculosis, or infectious diseases). The implementing agency for this program is the Ministry of Health with over AZN 53 million allocated from the state budget in 2010. About 250,000 people are covered by this benefit.

4. Utility and Power Subsidies for Selected Groups

59. Several groups in the community (e.g. those disabled during the war, Chernobyl disaster, etc.) are subsidized for public utilities, transport and other services. This program implemented since 2000, is based on social assistance principals. The program benefited 56,500 people with funds allocated from state budget of about AZN 17.3 million in 2010.

5. Social Assistance for Disabled

60. Social protection programs for the disabled includes health care, sport activities, and allowances. This program is financed by the State Social Protection Fund and implemented by MLSP. About AZN 2 million is allocated for this program in 2010.

6. New Houses for Disabled Victims of Karabakh War

61. The Karabakh War injured many people in the region, and thousands of people also lost their homes. The Government prioritised the construction of new houses for the disabled, and implemented the program over the past 10 years. The disabled from the Karabakh war are eligible to receive free houses in the village or apartments under this

program. This program is financed from different sources such as the State Pension Fund or State budget, and implemented by MLSPF.

7. Disability pensions

62. Disability pensions are paid irrespective of the reason for disability. The size depends on the correlation to one of three groups of physical disability.

8. Social Assistance to IDP's

63. One of the largest socially vulnerable groups are IDPs. The Azerbaijan Government provides monthly subsistence allowances to 550,000 IDPs, mostly living in compact areas. Monthly subsistence allowance programs are based on social assistance principles and implemented by the State Committee of the Republic of Azerbaijan on Deals of Refugees and Internally Displaced Persons (SCRIDP). The monthly subsistence allowance for IDPs increased in 2010 by the order of the President, and reached AZN 15 per month. About AZN 90.9 million is allocated from the State budget in 2010 for this benefit.

64. About 550,000 IDPs also benefit from utility and transport subsidies, with the State allocating AZN 77.1 million from the State budget in 2010. Furthermore, IDPs receive 40 litres of white oil monthly in the autumn and winter seasons. This program covers IDP families living in rural areas or about 80,000 IDP families. The State allocated AZN 7.1 million for this program in 2010.

65. Financial aid to IDPs are also made by public and private organizations during holidays. This includes food, clothes, medicine, etc. and covers IDPs living in the compact areas. IDPs received about AZN 3 million and AZN 3.3 million in 2009, and 2010, respectively.

66. Humanitarian aid and development projects for IDPs have also been implemented in Azerbaijan over the last 10 years. This aid covers the basic needs of IDPs including food, medicine, clothes, improvements in infrastructure and living conditions, etc. This program is coordinated by SDFIDP and implemented by 72 different international humanitarian organizations and development agencies operating in Azerbaijan. IDPs receive about AZN 27 million in humanitarian aid in 2010, covering 300 IDPs.

67. Construction of houses and settlements for IDPs has also continued over time with the SCRIDP coordinating the program. The SCRIDP is also responsible for the Social Development Fund for IDPs. This program is financed by the State Oil Fund of Azerbaijan Republic with about AZN 105 million allocated from the State Oil Fund. About 1,566 families, consisting of 7,047 IDP members moved into new settlements in 2010.

C. Child Protection Programs

68. Given the impact of the transition and the war, child protection programs tend to be focused on orphans and victims of war. The education sector is another area of concern since the breakdown of the Soviet Union.

1. Benefits for Martyrs Children

69. A benefit is given to families of martyrs based on the number of children in the family. If one of the parents is killed in events such as the Karabakh war and the deceased is classified as a martyr, the children are eligible beneficiaries. About AZN 100,000 is allocated from the state budget and over 700 children received this benefit in 2010.

2. Benefits for Orphans

70. The benefit for orphans is based on child protection principles. About AZN 300,000 is allocated from the State Budget to the 800 guardians or trustees of children who have lost their parents or been deprived of parental care in 2010.

3. Free Textbooks

71. The program of free textbook provision to all students in public schools started in 2003. All public school students from I grades to XI are provided with free text books. The Ministry of Education is the implementing agency for this program. The program covers about 1,318 students in public schools and allocates AZN 8 million from the State Budget in 2010. The government allocates resources to this program once in three years.

4. Disabled Children

72. Families with disabled children under 16 years old are provided with an additional day of rest while keeping their average earnings. In accordance with current regulations, this day of rest is presented to one of the employed parents.

5. Providing Education to IDP children

73. IDP and refugee students studying on a paid basis in state universities and schools are exempted from tuition fees. This is provided to IDP and refugee students, after consideration of their families' socio-economic status.

6. Disaster Relief

74. About AZN 315 million is allocated for disaster relief activities in 2010. It has dramatically increased compared to previous years due to the flooding in the Kura River wherein many houses were destroyed as a result of the disaster.

D. Social Insurance Programs

75. The six social insurance programs in Republic of Azerbaijan include (i) old age pension; (ii) work injury or disability related pensions; (iii) maternity and child benefits; (iv) burial benefit; (v) unemployment benefit; (vi) sanatorium treatment; and (vii) lifelong benefits to civil servants.

1. Old Age Pensions

76. Old age pension is paid to men aged 62 years and above and women aged 57 years old with at least 12 years of insurance history. The pension consists of base, insurance and saving components.

77. This pension is provided to about 1.29 million people (39.4% men and 60.6% women) in 2010 and the average amount of fixed monthly pensions constitutes 104.4 manats. About 1.66 billion manats are spent for labour and old age pensions in 2010.

Table 10: Average Sum of Fixed Monthly Pensions (AZN)

1996	2008	2009	2010
3.80	62.9	95.8	100.4

Source: SSC. 2011. *Azerbaijan in Figures*. <http://www.azstat.org>

2. Work Injury / Disability Related Pensions

78. Benefits for the temporary loss of working capacity is one of the key social insurance programs in Azerbaijan. The employee could receive benefits from the State Social Protection Fund upon loss of working capacity. About 900 people have benefited from this program and AZN 19.2 million is spent from the State Social Protection Fund for this purpose in 2010. Any employed person with paid social insurance to the State Social Protection Fund can benefit from this program.

79. A program benefitting persons with work injuries in the abolished *kolkhozes* (collective farms) and *sovkhozes* (state farms) is being implemented by the State Social Protection Fund. About AZN 3.3 million is allocated in 2010 as a lump sum treatment benefit for persons with work injuries, in abolished *kolkhozes* and *sovkhozes*, and in enterprises of the Republic of Armenia or refugees.

3. Maternity and Child Benefits

80. Benefits for pregnancy and child birth are funded via the State Social Security Fund. About 32,000 women benefited in 2010 and AZN 18.8 million is spent for this purpose. The lump sum benefit for birth of a child constitutes AZN 7.8 million in 2010.

81. In general, attention is paid to maternity care in Azerbaijan, with the creation of special labour conditions for pregnant women and nursing mothers such as breaks for infant breastfeeding. Women engaged in agricultural production are provided with maternity leave for 140-180 calendar days and 126-140 calendar days for other sectors of the economy depending on the complication of delivery.

82. Women having worked and contributed to the State Social Protection Fund can receive child care benefits for children under 3 years of age. All employed mothers are able to benefit from this program. After child birth, employed mothers can take 3 years leave from employment. About AZN 4.5 million is spent from the State Social Protection Fund in 2010, covering 125,300 persons.

4. Burial Benefit

83. Benefit for the Burial Program is financed from the State Pension Fund. In 2010, over 53,000 received this benefit and this program received about AZN 9.2 million in funding.

5. Unemployment Benefits

84. The Unemployment Benefit Program is one of the key labour market programs of the Government. This benefit has been available since 1992, following the independence of Azerbaijan. There are about 1,600 people receiving this benefit and AZN 4.3 million is spent for this program in 2010. This is about 48% more than the level of funding in 2008. The unemployment benefit program is financed through the State Social Protection Fund. This benefit is provided by the State Employment Service offices under the Ministry of Labour and Social Protection of Population.

85. The program covers the unemployed who lost their job, have difficulty finding employment, or became unemployed due to closure of an enterprise or organization. It is available to those between the ages of 15 to 61 for men and 15 to 56 for women. A person experiencing job loss can receive 70% of the latest annual average salary for the next 6 months, provided that the unemployment benefit cannot be higher than the average monthly salary (i.e., AZN 298 in 2009). This benefit is given to more than 1% of all unemployed persons, covering about 6.5% of those registered as unemployed in 2009.

86. About 563 IDPs are unemployed in 2009 and 104 persons in 2010. Unemployment benefits are granted to 680 and 123 persons in 2009, and 2010, respectively. Payment of average monthly salaries to 14,000 IDPs currently unemployed and having formerly worked at organizations financed by the State budget continued in 2009-2010.

6. Sanatorium Treatment

87. All employees working in the State budget organisation have the right to benefit from this program, although due to limited financial resources, most employees do not receive this benefit. About AZN 10.5 million is allocated from the State Social Security Fund in 2010. About AZN 10.3 million out of the total amount is allocated for sanatorium tickets and spa treatments; AZN 124,000 to summer camps for children from insured families; and AZN 107,000 for health services and food expenses. Payment of the sanatorium treatment program is based on a social insurance principle, with financing from the State Social Protection Fund.

7. Lifelong Benefit to Civil Servants

88. Implementation of a lifelong benefits to civil servants started a few years ago. It is granted to civil servants at pensionable age with less than 5 years employment history as a civil servant. Under this program, AZN 10,000 is allocated from the state budget and the budget allocation has remained the same over the last 3 years. About 50 people are covered in 2010.

E. Labor Market Programs

89. The Ministry of Labor and Social Protection of Population operates the sole labor market program in Republic of Azerbaijan - training program for the unemployed, and the labor exchange program. Labor market programs in Azerbaijan are operated by the State Employment Service, with some funding from the State Social Protection Fund.

1. Training for Unemployed

90. One of the main programs for the unemployed is the training program. This program covers the unemployed for vocational training, retraining and improvement of professional skills. The duration of the training is 1-3 months and the training courses are organized in different education centres.

91. About 3,921 people were involved in the trainings with 363 IDPs. About AZN 1.7 million is spent in 2010 for labour market activities such as training programs for the unemployed and jobseekers, job fairs, and public works for the unemployed and jobseekers. About 35,900 persons benefited from this program. This program is financed through the State Social Protection Fund and the implementing organisation is the State Employment Agency under MLSP. The State Employment Agency has permanent Training Centres in the Baku, Goychay and Nakhcivan regions.

2. Labor Exchanges

92. Establishing labor exchanges and providing consultancy services for the unemployed is ongoing for several years in Azerbaijan. Consultancy services are also implemented through the permanent offices of the State Employment Agency (i.e., Baku, Ganja and Mingachevir, Sumgayit). The labor exchanges and consultancy services support the unemployed in finding jobs or consultancies related to their profession.

IV. THE SOCIAL PROTECTION INDEX AND ITS DISAGGREGATION

93. The revised Social Protection Index (SPI) has a unitary indicator that can be disaggregated for analytical purposes. The revised SPI is calculated by **Total Social Protection Expenditures per Total Potential Beneficiaries by 25% of the GDP per capita (representing average poverty line expenditures)**. In other words, the total social-protection expenditures spread across all potential beneficiaries are compared to poverty-line expenditures in each country.

94. The revised SPI is calculated by **Total Social Protection Expenditures per Total Potential Beneficiaries by 25% of the GDP per capita (representing average poverty line expenditures)**. In other words, the total social-protection expenditures spread across all potential beneficiaries are compared to poverty-line expenditures in each country.

95. The revised SPI index can be disaggregated into two components, one for the 'depth' of coverage and the other for the 'breadth' of coverage of social protection programs. The first indicator is the **Total Social Protection Expenditures divided by the Total Actual Beneficiaries** (i.e., the average size of benefits actually received or 'depth'). The second indicator is the **Total Actual Beneficiaries divided by the Total Potential Beneficiaries** (i.e., the proportion of potential beneficiaries actually reached or 'breadth').

96. The revised SPI can also be disaggregated by the major categories of social protection programs: social insurance, social assistance and labor market programs. When the total expenditures per total potential beneficiaries for each major program are weighted in population terms, the program SPIs add up to the total SPI.

97. Furthermore, the revised SPI can also be disaggregated by expenditures per potential poor and non-poor beneficiaries. Finally, gender-wise data allows the disaggregation of expenditure by gender.

98. The derivation of SPI poor and non-poor, and SPI women and men used poverty and gender targeting rates. The rates are based on the results of household surveys, administrative reports of social protection implementing agencies, and in some instances, on the professional judgment of the compilers.

A. Basic Statistics

99. The basic information on the country's socio-economic indicators, which will be used in SPI calculation are summarized in Table 11.

Table 11: Azerbaijan Basic Statistics for 2009

Statistic	Unit	2009 Value	Source of Data	Notes
GDP (current prices)	Millions	35,602	National Accounts, State Statistical Committee (SSC)	calendar year
GDP per capita (current prices)	Units	4,033	National Accounts, SSC	calendar year
GNI (current prices)	Billions	34	National Accounts, SSC	calendar year
Total Population	Millions	9.0	National Accounts, SSC	midyear population estimate

Number of unemployed/ under-employed	Millions	1.1	Labor Force Survey, SSC	
Population aged 60 years and over plus retirees	Millions	1.1	Estimate using 2005 report p.31	includes young pensioners (below 60)
Employed Population	Millions	4.3	Labor Force Survey, SSC	
Population living below national poverty line	Millions	1.0	Poverty Assessment, SSC	
Disabled population	Millions	0.4	Ministry of Social Welfare	estimate from MSW
Children aged 0 to 14 years	Millions	2.0	Census, SSC	midyear population estimate
Disaster affected population	Millions	0.6	Beneficiaries sheet	
Per capita poverty line income (annual)	Units	1,008	HBS, SSC	
Average household size	persons	4.49	Household Budget Survey, SSC	
Exchange rate	US\$1=AZN	0.8	Central Bank	calendar year
GDP = gross domestic product, GNI = gross national income				

Source: Country Sources, 2011

B. Social Protection Expenditure

100. Most of information shown in Table 12 is obtained from published reports of government and public organizations. Additional data is obtained through interviews with representatives of the implementing agencies. In certain cases, estimates are made by the consultants.

Table 12: Expenditure on Social Protection, 2009

SP No.	SP Programs	Implementing Agency	SP Category	2008 Annual Expenditure (millions New Manats)*	2009 Annual Expenditure (millions New Manats)*	2010 Annual Expenditure (millions New Manats)*
1	Labor and Old-Age Pensions	SSPF	PEN	1,268.6	1,474.3	1,633.9
2	Lump sum benefit for birth of a child	MLSPP and SSPF	CP	4.1	5.8	7.8
3	Benefit for pregnancy and birth of a child	SSPF	OSI	9.2	15.9	18.8
4	Benefit for burial	SSPF	OSA	7.9	9.2	9.9
5	Benefit for temporary loss of working capacity	SSPF	OSI	0.2	0.5	0.5
6	Benefit to guardians (trustees) of children who	MLSPP	CP	0.2	0.3	0.3

	have lost their parents or been deprived of parental care					
7	Benefit for martyrs' families (for child)	MLSPP	CP	0.3	0.2	0.1
8	Benefit for children under one year from families of disabled as a result of War and Chernobyl AES, including Army servants	MLSSP	CP	3.6	4.5	4.9
9	Social benefits for children under 18 years old with limited health	MLSPP	CP	2.8	2.9	3.2
10	Sanatorium and health resort vouchers for insured employees	TUC	HI	7.6	10.0	10.5
11	Activities for social protection of disabled	MLSPP	OSA	2.2	2.0	2.0
12	Benefit for care of children under 3 years of age	SSPF	CP	5.0	5.0	4.5
13	Recipients of disability benefit	MLSPP	OSI	71.3	95.2	101.5
14	Unemployment benefits	MLSPP	UB	2.9	4.1	4.3
15	All government active labor market programs	MLSPP	LMP	1.2	1.6	1.7
16	Targeted Social Assistance	MLSPP	OSA	127.4	180.0	180.0
17	Benefits for utilities and transportation of vulnerable groups	MLSPP	OSA	11.4	15.9	17.3
18	Benefits for Civil Servants	MLSPP	OSA	0.01	0.01	0.01
19	Lump sum treatment benefit for persons with work injuries, as well as in abolished <i>kolkhozes</i> and <i>sovkhoses</i> and in enterprises of Armenia Republic or refugees.	MLSPP	HA	1.5	4.6	3.3
20	Disaster Relief	MOD	DA	8.0	15.0	315.0

21	Social assistance programs for IDPs	SCRIDP	OSA	319.5	285.6	307.1
22	Provision of free medicine (drugs) under targeted health programs	MOH	HA	47.5	49.9	53.0
23	Subsidy for fuel and motor oil to producers of agricultural product from State budget	MOA	OSA	83.4	0	79.0

Total Social Protection Expenditures (2009)
2,182.4

Note: PEN-Pensions; OSA-Other Social Assistance; CP-Child Protection programs; PEN – Pensions; LMP-Labour Market Programs
Source: Country Sources, 2011

101. Total expenditure spent on social protection in 2009 is equal to AZN 35.6 billion, which is about 6.1% of Azerbaijan's GDP.

Table 13: Social Protection Expenditure by Social

Protection Category	2009 Annual Expenditure (millions New Manats)*	Percent Share
<i>Pensions</i>	1,474.3	67.6%
<i>Health Insurance</i>	10.0	0.5%
<i>Unemployment Benefit</i>	4.1	0.2%
<i>Other Social Insurance (e.g. maternity, disability benefits)</i>	111.5	5.1%
ALL Social Insurance	1,599.9	73.3%
<i>Assistance for Elderly</i>	0.0	0.0%
<i>Health Assistance</i>	54.5	2.5%
<i>Child Protection</i>	18.7	0.9%
<i>Disaster Assistance and Relief</i>	15.0	0.7%
<i>Other Social Assistance</i>	492.7	22.6%
ALL Social Assistance	580.9	26.6%
Labor Market Programs	1.6	0.1%
TOTAL SP EXPENDITURE	2,182.4	100.0%
GDP	35,601.5	
SP Expenditure Indicator	6.1%	

Source: Country Sources, 2011

102. The largest share of social protection expenditure is allotted to social insurance programs at 73.3%; 67.6% of expenditure funds old age pensions. Social assistance programs have the next largest share at 26.6%; expenditures on labor market programs are the smallest, reaching less than 1% of the total social protection expenditures.

C. Beneficiaries of Social Protection Programs

103. Table 14 presents information on the number of beneficiaries of social protection programs. There is the possibility of double-counting in the overall number of social protection beneficiaries because of significant overlaps between different programs. For instance, beneficiaries of disability programs are also old or children. There can also be overlaps in the elderly who could receive both pensions and free medicines.

Table 14: Number of Beneficiaries in 2009

Prog. No.	Program Name	2008 Beneficiaries (000s)	2009 Beneficiaries (000s)	2010 Beneficiaries (000s)	SP Category (Detailed)
1	Labor/Old-Age Pensions	1275.0	1308.0	1292.0	PEN
2	Lump sum benefit for birth of a child	124.0	127.0	124.8	CP
3	Benefit for pregnancy and birth of a child	31.0	31.0	32.0	OSI
4	Benefit for burial	52.7	52.5	53.6	OSA
5	Benefit for temporary loss of working capacity	0.4	0.9	0.9	OSI
6	Benefit to guardians (trustees) of children who have lost their parents or are deprived of parental care	1.1	1.0	0.8	CP
7	Benefit for martyrs' families (for the child)	2.0	1.3	0.7	CP
8	Benefit for children under one year from families of disabled as a result of War, and Chernobyl AES, as well as Army servants	33.7	32.5	31.0	DA
9	Social benefits for children under 18 years of old with limited health	56.4	58.1	57.9	CP
10	Sanatorium and health resort vouchers for insured employees	14.3	18.0	18.1	HI
11	Activities for social protection of disabled (e.g., medical rehabilitation, lump sum allowances, organizing events, establishing database, etc.)	7.0	7.5	8.0	OSA
12	Benefit for care of children under 3 years of age	129.9	130.8	125.3	CP
13	Recipients of disability benefit	140.7	145.4	150.8	OSI
14	Unemployment benefits	4.7	5.7	1.6	UB
15	All government active labor market programs (e.g., training programs for unemployed or jobseekers, job fairs, and public works for unemployed or jobseekers)	9.6	46.7	35.9	LMP
16	Targeted Social Assistance	750.0	657.3	552.5	OSA
17	Benefits for utilities and transport to vulnerable groups	55.0	56.2	56.5	OSA
18	Benefits for Civil Servants	0.058	0.051	0.050	OSA

Prog. No.	Program Name	2008 Beneficiaries (000s)	2009 Beneficiaries (000s)	2010 Beneficiaries (000s)	SP Category (Detailed)
19	Lump sum treatment benefit for persons with work injuries, as well as in abolished <i>kolkhozes</i> and <i>sovkhozes</i> and in enterprises of Armenia Republic or refugees.	5.5	6.0	7.7	HA
20	Disaster Relief	27.0	31.5	47.7	DA
21	Social assistance programs for IDPS (e.g., construction of houses for IDPs; provision of public utilities such as water, gas and electricity to IDPs; monthly subsistence allowance to IDPs; humanitarian aids including monthly food aid to IDPS from the World Food Program; development projects for IDPs; and white oil for IDP families)	540.0	540.0	550.0	DA
22	Provision of free medicine or drugs under targeted health programs (e.g., diabetes, heritable blood diseases, renal impairment, tuberculosis, infectious diseases, etc.)	200.0	220.0	250.0	HA
23	Subsidy for fuel and motor oil to producers of agricultural product from State budget	612.6	0.0	555.9	OSA
Total Beneficiaries, 2009			3,477.3		

Source: Country Sources, 2011.

V. ANALYSIS OF COUNTRY RESULTS

104. This chapter synthesizes the information obtained from the review of Azerbaijan's current social protection activities in order to calculate the Social Protection Index.

A. SPI Disaggregation by Category

105. The SPI can be disaggregated by the major categories of social protection programs – social insurance, social assistance, and labor market programs. When the total expenditures per total potential beneficiaries for each major program are weighted in population terms, the program SPIs add up to the total SPI.

Table 15: Disaggregation by Category

	Social Insurance	Social Assistance	Labor Market Programs	All SP Programs
Total SP Expenditure (Million AZN)	1,600	581	2	2,182
Beneficiaries (000s)	1,509	1,922	47	3,477
Reference Population (000s)	6,017	4,495	1,082	11,595
25% of GDP per capita	1,008	1,008	1,008	1,008
SPI	0.137	0.050	0.000	0.187

Source: Consultant's estimates, 2011

106. Azerbaijan's SPI for 2009 is 0.187. This figure indicates that the average social protection expenditures in 2009 is about 18.7% of the per capita poverty line, which is set at 25% of the 2009 GDP per capita. Social insurance programs showed the highest index with 0.137, or an average of 13.7% of the per capita poverty line expenditures due to pension programs having the largest share of social protection expenditures. The labor market programs index is less than 1% of the per capita poverty expenditures. The index for social assistance is estimated at 0.050 or about 5% of the per capita poverty expenditures.

B. SPI Disaggregation by Depth and Breadth

107. The SPI can also be disaggregated into two components – 'depth' of benefits and the 'breadth' of coverage of social protection programs. The first indicator is the Total Social Protection Expenditures divided by the Total Actual Beneficiaries (i.e., the average size of benefits actually received). The second indicator is the Total Actual Beneficiaries divided by the Total Potential Beneficiaries (i.e., the proportion of potential beneficiaries actually reached).

Table 16: Disaggregation by Depth and Breadth

	Social Insurance	Social Assistance	Labor Market Programs	All SP Programs
Depth	1.052	0.300	0.033	0.622
Breadth	0.130	0.166	0.004	0.300
SPI	0.137	0.050	0.000	0.187

Source: Consultant's estimates, 2011

108. The depth of social protection is 0.622, which indicates that the average benefits received is about 62.2% of the per capita poverty line. More than half the value of the per capita poverty line is reached because of the social insurance depth of more than 1. On the other hand, the breadth of social protection is 0.300, indicating that about 30% of the targeted beneficiaries received social protection benefits. The overall SPI is derived by multiplying the depth and breadth indices.

109. The average size of benefits actually received is higher in social insurance programs than social assistance programs. However, the proportion of potential beneficiaries actually reached is higher for social assistance programs than for social insurance and labor market programs. This may be partly due to the wider coverage of social assistance in the country.

C. SPI by Poor and Non-poor

110. The Poverty Targeting Rate (PTR) is introduced in this report. The information on PTR is needed to derive the SP index for poor and non-poor. The PTR reflects the number of existing poor population that receives social protection expenditure. In Azerbaijan, well targeted social protection programs reach a huge proportion of the poor above the poverty

line. Thus, the targeting rate of social protection programs should have been much higher than shown in this report. The largest three programs in the country are targeted at populations with high vulnerability to poverty. Good targeting of beneficiaries would reflect a higher SPI for poor than non-poor.

Table 17: Disaggregation by Poverty Status

	Poor	Non-Poor
SP Expenditure (Million AZN)	479	1,704
Reference Population (000s)	11,595	11,595
25% of GDP per capita	1,008	1,008
SPI	0.041	0.146

Source: Consultant's estimates, 2011

111. The index for poor is 0.041. This means that the average amount received by poor beneficiaries from social protection expenditures of the Government is about 4.1% of the per capita poverty line; while the index for non-poor at 0.146 indicates that non-poor beneficiaries received about 14.6% of the per capita poverty, higher than the amount received by the poor. This is due to the high expenditure on social insurance programs which benefit the employed population and mostly non-poor.

D. SPI by Gender

112. Table 18 shows the gender decomposition of social protection expenditures and respective SPI indicators. The resulting figures show a considerable difference for men and women in Azerbaijan. However, since the figures are derived from calculations based on consultant assumptions, and in the absence of gender disaggregated data, the results may be different.

Table 18: Disaggregation by Gender

	Women	Men
SP Expenditure (Million AZN)	800	1,383
Reference Pop (000s)	11,595	11,595
25% of GDP per capita	1,008	1,008
SPI	0.068	0.118

Source: Consultant's estimates, 2011

113. The SPI for women is 0.068 and 0.118 for men. These figures indicate that men receive more social protection benefits than women.

VI. CONCLUSION AND RECOMMENDATIONS

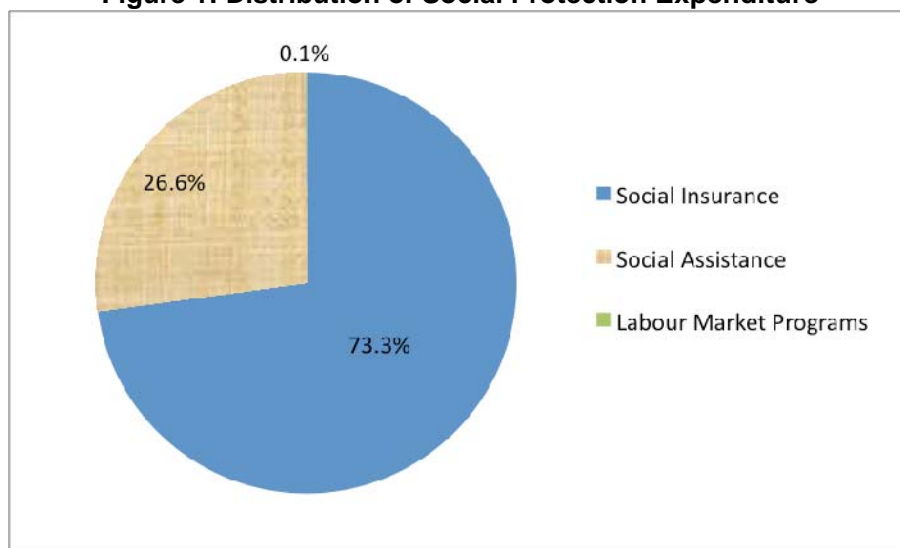
114. The information provided in this report can be used as a starting point for diagnostic evaluation of social protection in Azerbaijan. There are essentially four possible levels of analysis as shown in Table 19.

Table 19: Potential Uses of the SPI and its Constituent Information

Level of Analysis	Value to Policy Makers	Possible uses
SPI	Relative social protection provision; changes over time.	Formulation of policies to improve social protection provision; good targeting of country programs for assistance; measure of effectiveness of new or extended social protection programs; identification on focus of more detailed future investigations.
Distribution of Social Protection Expenditure/ Target Group Coverage Ratios	Categories of social protection where expenditure is 'lagging'; target groups where coverage is particularly low.	Increased social protection provision, expenditure for target groups with low coverage ratios.
Social Protection Programs	Targeting of programs, average benefits, extent of coverage, etc.	Reviews of the effectiveness and targeting of existing programs.

115. Figure 1 compares the distribution of social protection expenditure by category. About 73.3% of Azerbaijan's social protection expenditure is spent on social insurance schemes, which is mostly allotted for pensions since there is almost universal coverage. About 22% of Azerbaijan's social protection expenditure is targeted to the poor, which comprises only 11% of the population.

Figure 1: Distribution of Social Protection Expenditure



Source: Table 13.

116. The next stage of analysis is to examine individual social protection programs to identify which programs are successful in terms of expenditure, coverage, poverty impact and the average level of benefits to target beneficiaries. In Azerbaijan's case, further analysis could focus on the provision of programs to Internally Displaced Persons and the extent to which non-poor households are benefiting from larger social assistance programs.

117. The non-poor bias of Azerbaijan's social protection expenditure is validated by figures showing that about 28.1% of social protection expenditure goes to the poor that compose only 11% of the population. Thus, the severity of poverty in Azerbaijan, and its overall incidence, would be significantly higher without the level of social protection currently provided.

118. This situation reflects the very recent rapid oil-based economic expansion that enabled the government to substantially increase expenditure on social protection in the last few years. Further increases are also possible as the economy is likely to experience further rapid expansion over the next few years.

119. The strength of Azerbaijan's social protection indicators has few direct policy implications. The most important implications to be considered consist of increasing the coverage level for the poor; and reviewing the need for targeted health assistance programs. Analysis of program specific information could also examine the extent to which non-poor households are benefiting from larger social assistance programs.

120. Further increases in social protection activities in Azerbaijan, especially related to IDP's, are likely to take place in the future as the economy continues to expand. Improving the effectiveness of existing programs and evaluating the impact of new social protection programs require a sound monitoring mechanism. This is particularly the case in Azerbaijan where the level of social protection activities increases rapidly.

121. The SPI and its components provide a monitoring tool at the national level while program specific data provide more detailed information on future problems and possible improvements. The SPI will be more useful if it is periodically updated and improved to reflect the changes in welfare of the poor population. The quality of data could also be improved if future national household surveys will include modules related to major social protection programs.

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FORMULATION OF THE SOCIAL PROTECTION INDEX AND ITS MAJOR DISAGGREGATION

A. Structure of the SPI

1. Based from the 2011 SPI Handbook by Baulch' and McKinley, the SPI is described as a simple and unitary indicator rather than a composite index. It is not an abstract index and should provide a “normative” reference such as the magnitude of the impact on people.

2. The formulation of the revised SPI, under the present study, refers to the total SP expenditures divided by the total potential beneficiaries, and relative to a quarter of GDP per capita. This is mathematically expressed in the following equation:

$$SPI = \frac{\left[\frac{\sum E}{\sum PB} \right]}{Z}$$

where

E represents the sum of all SP expenditures;

PB represents the sum of all potential beneficiaries; and

Z represents poverty-line expenditures which is 25% of GDP per capita.

3. The term “Total Expenditures per Total Potential Beneficiaries” has two parts:

- (i) Total expenditures per total actual beneficiaries – this represents the Depth of the SPI;
- (ii) Total actual beneficiaries per total potential beneficiaries – this represents the Breadth.

4. It is noted that 25% of GDP per capita is roughly the average national poverty line across ADB's sample of countries.

B. SPI's Major Disaggregation

1. Disaggregation by Depth and Breadth

5. The SPI can be disaggregated into measuring the depth of coverage and also, the breadth of coverage. Depth represents the average expenditures that the government spends for every actual beneficiary as a percentage of poverty-line expenditures.

a. Depth

6. The index is measured as

(Total Expenditures divided by Total Actual Beneficiaries);
Divide by Z or the poverty-line expenditure.

7. The index is represented by the following equation:

$$D = \frac{\left[\frac{\sum E}{\sum AB} \right]}{Z}$$

where

D represents Depth

E represents the sum of all SP Expenditures, and

Z represents the poverty-line expenditures.

b. Breadth

8. The breadth of coverage index is simply the proportion of the total actual beneficiaries receiving government benefits over the total potential beneficiaries. This is computed as

Total Actual Beneficiaries divided by Total Potential Beneficiaries.

9. The index is represented by the equation

$$B = \frac{\sum AB}{\sum PB}$$

where

B denotes Breadth,

AB represents the sum of all actual SP beneficiaries

PB represents the sum of all potential SP beneficiaries.

2. Disaggregation by Component

10. The second major disaggregation involves the three-way distinction between components.

11. Each of the three components for Expenditures per Potential Beneficiaries of SI, Potential Beneficiaries of SA, Potential Beneficiaries of LMP is multiplied by its weight. The mathematical relationship between the three components is based on weighted average.

- (i) SPI for Social Insurance (includes pensions, health insurance, and unemployment benefit)
- (ii) SPI for Social Assistance (includes assistance for the elderly, health assistance, poverty programs and child protection)
- (iii) SPI for Labor Market Programs (include training and public works scheme)

12. The formula for the SPI of each of the three categories can be illustrated by the formula for SPI_{si}. Deriving the SPI for Social Insurance proceeds as

(SI Expenditures divided by SI Actual Beneficiaries) multiplied by
 (SI Actual Beneficiaries divided by SI Potential Beneficiaries) multiplied by
 (SI Potential Beneficiaries divided by All SPI Potential Beneficiaries) multiplied by
 1/Poverty-Line Expenditures.

13. The SPI for SI is expressed in the equation

$$SPI_{st} = \frac{\left[\frac{\sum E_{st}}{\sum AB_{st}} \right] \times \left[\frac{AB_{st}}{PB_{st}} \right] \times \left[\frac{PB_{st}}{PB} \right]}{Z}$$

14. The last expression in the numerator represents the proportion of SI, which is the potential SI Beneficiaries divided by the Total SPI Potential Beneficiaries.

Z represents the poverty-line expenditures.

15. After each of the three components' expenditures per potential beneficiaries (SI, SA, LMP) has been multiplied by its weight, all three are added together. The resulting total is the country's SPI. This is shown as

$$SPI = SPI (SI) + SPI (SA) + SPI (LMP)$$

3. Disaggregation of Expenditures on Poor and Non-Poor Beneficiaries

16. The SPI can be disaggregated by expenditures on poor and non-poor beneficiaries.

a. SPI (Poor)

17. The index is derived at as follows:

SPI_p represents the total expenditures per poor actual beneficiaries as a ratio to all potential beneficiaries both poor and non-poor. The index is computed as:

(Total Expenditures on the Poor divided by the Total Poor Actual Beneficiaries) multiplied by (Total Poor Actual Beneficiaries divided by Total Potential Beneficiaries).

18. The index is represented by the following equation:

$$SPI_p = \left[\frac{\sum E_p}{\sum AB_p} \right] \times \left[\frac{\sum AB_p}{\sum AB} \right]$$

b. SPI (Non-Poor)

19. SPI_{np} represents the total expenditures per non-poor actual beneficiaries as a ratio to all potential beneficiaries, both poor and non-poor.

20. The index is derived as

(Total Expenditures on the Non-poor divided by Total Non-poor Actual Beneficiaries) multiplied by (Total Non-poor Actual Beneficiaries divided by Total Potential beneficiaries).

21. The index is represented by the following equation:

$$SPI_{np} = \left[\frac{\sum E_{np}}{\sum AB_{np}} \right] \times \left[\frac{\sum AB_{np}}{\sum AB} \right]$$

22. When SPI (Poor) is multiplied to SPI (Non-Poor), the product represents the SPI of the country.

