

Azerbaijan Republic: Poverty Reduction Strategy Paper Progress Report

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**STATE PROGRAMME ON
POVERTY REDUCTION AND ECONOMIC DEVELOPMENT**

**AZERBAIJAN PROGRESSES TOWARD
THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS**

ANNUAL PROGRESS REPORT - 2003

BAKU 2004

ACRONYMS:

ADB	Asian Development Bank
AIDS	Acquired Immune Deficiency Syndrome
AZM	Azerbaijan National Currency (Manat)
BTA	Baku-Tbilisi-Arzurum
BTC	Baku-Tbilisi-Ceyhan
CIS	Commonwealth of Independent States
CM	Cabinet of Ministers
DOTS	Directly Observed Treatment Short Course
EBRD	European Bank for Reconstruction and Development
ECCD	Early Childhood Care and Development
ECO	Economic Cooperation Organization
EPI	Expanded Programme on Immunization
EU	European Union
EUIP	Ecologically Urgent Investment Projects
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FSIS	Food Security Information System
FSP	Food Security Programme
GDP	Gross Domestic Product
GEF	Global Environment Facility
GTZ	German Society for Technical Assistance
HBS	Household Budget Survey
HIV	Human Immune Deficiency Virus
IBTA	Institutional Building Technical Assistance
IDA	International Development Agency
IDP	Internally Displaced Person
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JSA	Joint Staff Assessment
KfW	German Bank for Development
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
MDG	Millennium Development Goal
MED	Ministry of Economic Development
MENR	Ministry of Ecology and Natural Resources
MICS	Multiple Indicator Cluster Survey
MLSP	Ministry of Labour and Social Protection
MOH	Ministry of Health
MTEF	Medium Term Expenditure Framework
NB	National Bank
NGO	Non-government Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PIP	Public Investment Programme
PMU	Poverty Monitoring Unit
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
RHS	Reproductive Health Survey
SAP	Strategic Action Plan
SCRIDP	State Committee for Refugees and Internally Displaced Persons
SES	State Employment Service
SFD	Saudi Fund for Development
SME	Small and Medium Enterprises
SOCAR	State Oil Company of Azerbaijan Republic
SOFAR	State Oil Fund of Azerbaijan Republic

SPPRED	State Programme on Poverty Reduction and Economic Development
SPSS	Software Package for Social Sciences
SSC	State Statistical Committee
SSPF	State Social Protection Fund
SWG	Sector Working Group
TACIS	Technical Assistance to the Commonwealth of Independent States
TB	Tuberculosis
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
USD	United States Dollars
USTDA	United States Trade and Development Agency
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

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Introduction

SPPRED: the global context

Since the end of the 1990s, there has been reconsideration by the international community of the best ways to promote economic growth and reduce poverty in the world. This has resulted in efforts by national governments, in close collaboration with international organisations, to produce nationally strategies for poverty reduction (Poverty Reduction Strategy Paper PRSP). Such strategies also provide a focal point for ensuring better coordination of external (donor) assistance aimed at poverty reduction. In the years 2001-2003, Azerbaijan, with support from its international partners, produced such a national strategy document: the SPPRED.

The new global approach to poverty reduction has gone hand in hand with a broader understanding of poverty. While there are different estimates of the number of poor in the world, (and in individual countries), there is a common recognition that poverty is “multi-dimensional” and that a “mix” of parallel policy actions are required to tackle the different dimensions. Whereas previously the focus was almost entirely on “income poverty” (low levels of per capita income or expenditure levels), it is now accepted that coordinated efforts need to be directed at all dimensions of poverty in order to have a long term and sustainable effect on living standards. Using an income poverty type of measurement, the World Bank (WB) has estimated that 2.8 billion people live on less than \$2 per day, and 1.2 billion on less than \$1 per day¹.

The dimensions of poverty can be summarized as:

Lack of opportunities: This dimension relates income and consumption levels, but also to human capital, employment, wages, and access to assets, such as land;

Low capabilities: This dimension relates to health and education indicators. Low education attainment, illness, and malnutrition contribute to income poverty;

Low level of security: This dimension is linked to risks which may arise at the national or local level. Some are predictable such as seasonal risks in agricultural connected to harvest. But some are caused less predictable risks, such as macro-economic shocks, natural disasters;

Empowerment: This dimension is linked to the extent to which poor people can participate and influence decision-making.

The SPPRED represents an attempt to take into account all of these dimensions of poverty and to understand the links between them.

The global commitment to reduce poverty has been expressed in the clear poverty focus of international organizations since the late 1990s. While different organisations may call the strategies different names, or may have a slightly different focus, the end aim for all is poverty reduction and economic development and the strategies are fundamentally statements of national governments' commitment to poverty reduction. However, they need not be a series of different strategies for different donor organizations. In Azerbaijan, SPPRED has provided a successful example of full collaboration and coordination between the government and the various donor organisations (international and bilateral) in the formulation and implementation of one national strategy.

SPPRED: Past and Present

As mentioned above, SPPRED was formulated in the period 2001-2002. In 2001, a Secretariat was set up at the Ministry of Economic Development (MED) with the task of leading and coordinating work on the strategy document. 15 Sector Working Groups (SWGs) were also set up, including members from government agencies, Non government organizations and civil society. Drafts of the policy proposals being put forward in the strategy document were discussed at various national and regional seminars. The final draft was presented at an

¹ World Development Report 2000/2001

international conference held in Baku on 25th of October 2002, and received final approval with a Presidential Decree on February 20th, 2003.

The SPPRED document was submitted to the International Monetary Fund (IMF) and WB. In April 2003, the staff of the International Development Agency (IDA) and IMF produced a Joint Staff Assessment (JSA) of the strategy document. The JSA gives a positive review of SPPRED, evaluating it as a significant achievement, and stating that it “represents a credible poverty reduction strategy that provides a sound basis for Bank and Fund concessional assistance”.

In May 2003, a resolution of the Cabinet of Ministers (CM) decreed that work should begin on the implementation of the strategy, and that the MED is to coordinate activities to ensure successful implementation of the strategy.

Since then, the SPPRED Secretariat under the MED has been re-formed and extended to include a Poverty Monitoring Unit (PMU). Its activities were supported in 2003 through assistance from the WB, Asian Development Bank (ADB), United Nations Development Programme (UNDP), US Agency for International Development (USAID) and GTZ.

SPPRED: Brief summary of its content goals

The aim of this report is to summarise progress achieved during the first year of implementation: to highlight problems encountered, and outline future activities. Before going on to describe the structure of the report, it is worth summarising the main points of the SPPRED document.

SPPRED as a strategy document set out to answer four key questions:

1. *Where are we now?* The first chapters of SPPRED set out what we know about poverty and its determinants in the country and what factors are holding back future economic development in the country.

2. *Where do we want to go?* The vision of the strategy is further economic development which can guarantee a fairer distribution of the benefits of economic growth: broad development which is not only

concentrated in the oil sector and which is spread evenly over the different regions of the country.

3. *How do we want to get there?* SPPRED identified six key strategic directions for achieving its overall aims of poverty reduction and economic development, namely:

1. Creating an enabling environment for the growth of income-generating opportunities
2. Maintenance of economic stability
3. Improvement of the quality of and equity of access to basic health and education services
4. Improvement of infrastructure
5. Reform of the existing system of social protection
6. Improvement of the living conditions and opportunities of the refugee and IDP population

4. *How will we know that we are getting there?* SPPRED includes a policy matrix which summarises the policy direction and measures considered necessary to achieve the above strategic aims. It includes the policy priorities identified by the 15 SWGs, and categorises them into four main functional groups:

1. Economic development and employment growth
2. Social policy and human development
3. Regional policy and infrastructure development
4. Institutional reform and capacity building

The policy matrix includes a list of indicators to be used for monitoring implementation progress.

SPPRED: Implementation

SPPRED is a strategy document for the period 2003-2005. This annual report summarises activities and progress in the year 2003. Since this is the first year of the programme, there has not been time to organise impact analyses of the policy measures being implemented under any of the four categories mentioned above. Neither has enough time passed for the full

implementation effect of most measures to become apparent, making impact analyses in any case premature.

As stated above, the SPPRED Secretariat was re-formed under the MED in May 2003, and has since been coordinating the monitoring of the implementation process. Line ministries are responsible on implementation of the policy actions within Policy Matrix of the SPPRED and to provide a quarterly report on the implementation status to the Secretariat.

The report is divided into seven chapters reporting on the key areas outlined in the SPPRED document:

Chapter 1 describes the relationship between the global Millennium Development Goals (MDGs) and SPPRED goals. The MDG country-specific goals, targets, and indicators, are the subject of on-going discussions. It is anticipated that once they have been approved, they are unlikely to differ greatly from the goals and objectives of the SPPRED.

Chapter 2 provides an update by the PMU within SPPRED Secretariat on the main economic development and living standards indicators. It also points out the links between these and the country-specific indicators being discussed for monitoring progress towards achieving the MDGs.

Chapter 3 provides an update on progress in the implementation of a range of measures relating to fiscal policy, monetary policy and development of the banking sector, investment policy, energy policy, and labour market and employment policies. The information is based on the implementation progress reports received from the line ministries in these sectors.

Chapter 4 reports on those sectors relating to social policy and human capital development. Progress in the implementation of policy measures and activities in education, culture, health, social protection, and improving the living standards of IDPs and refugees is set out in this chapter.

Chapter 5 is devoted to regional policy and infrastructure development. This chapter gives a summary of the activities related to public investment in utilities and infrastructure; a report on measures relating to agriculture, irrigation, land protection and water resources, and also

those relating to environmental protection and the development of tourism.

Chapter 6 summarises the policy measures being implemented to promote institutional reform and capacity development, both of which are crucial to support the measures undertaken for economic and social development reported in the previous three chapters. This chapter reports on judicial and legal reforms, progress in decentralisation and developing capacity in the municipalities, as well as capacity building in poverty monitoring.

Chapter 7: Participation. The approach adopted is an inclusive approach and the Secretariat is facilitating extensive and inclusive consultation and participation in the implementation and evaluation of policy measures. The development of a participatory process in the implementation phase has received a lot of attention from the Secretariat, donor organisations, NGO's and the working groups. A full report of this year's activities and recommendations for further strengthening of participation of vulnerable and excluded groups are contained in this chapter. The adoption of an inclusive approach is viewed as integral and fundamental in SPPRED implementation activities.

The report also contains 3 appendices, namely a table summarising discussion so far on country-specific MDGs, a report on the status of the country's MTEF, and a summary table containing selected economic and social indicators for 1999-2003.

Chapter 1: SPPRED and the MDGs

In September 2000, 147 heads of state and government, including the President of Azerbaijan, Heydar Aliyev, committed themselves to the Millennium Development Goals (MDGs) to achieve poverty reduction and promote human development in the world. The number of countries giving their commitment has since risen to 191. MDGs were set out in the Millennium Declaration adopted by the United Nations General Assembly. They identify a set of goals, which provide a focus for the efforts of the world community to achieve measurable improvements in people's lives by the year 2015. The full MDG framework comprises 8 goals, 18 targets and 48 indicators. Most targets are to be achieved over a 25-year period, from 1990 to 2015. The 8 main goals are as follows:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

These MDGs (as well as the 18 targets) are set at the global level, and cannot be considered appropriate for all countries. Azerbaijan, like the other nations who signed the Millennium Declaration, now has the task of adapting them to its concrete conditions and stage of development and of setting country-specific goals and targets. Initial discussion of possible country-specific goals has taken place in 2003 within the framework of the SPPRED's activities. The reasons for this are as follows:

The overall aim of the MDGs and that of SPPRED is poverty reduction, and the overall goals identified by SPPRED are fully compatible with the MDGs. Moreover, SPPRED sets out a series of priority policy directions and measures which can be used by the government to achieve these goals.

SPPRED as a strategy is "nationally owned", i.e. it is a poverty reduction strategy developed not by any individual donor organisation, but by the government, through a participatory process

involving civil society as well as the International Financial Institutions (IFIs) and donor community. In the same way, it is considered important that the country-specific MDGs and targets should be nationally owned, and that they could therefore benefit from being "embedded" in the SPPRED participatory process.

SPPRED was developed as a poverty reduction strategy which could satisfy the requirements of a PRSP. While there are general guidelines on the content and approach required for a PRSP, it is recognised that there is no single recipe for each country, and that each PRSP will have to take into account the specific economic conditions, problems, institutions, social capital etc of the specific country. Azerbaijan has already gone through a major part of the process of adapting the PRSP guidelines to its specific conditions. In the same way, the global MDGs have to be adapted to local conditions, and made "country-specific". But this process could be accelerated by building on the groundwork done in the SPPRED formulation phase.

One of the principles of SPPRED is that it is not an abstract "wish list" of good intentions, but is linked to the actual expenditure capabilities and potential of the country. For this reason, the strategy includes a Medium-Term Expenditure Framework (MTEF). This is also one of the principles of the MDGs; i.e country-specific goals and targets should be backed up by a clear expenditure programme, which makes their achievement realistic.

The WB and the UNDP have recently issued a joint statement, which sets out the desire of both organisations to see PRSPs and country-specific MDGs being integrated, since PRSPs are seen as ideal vehicles through which to mobilise the country's resources to achieve the MDGs. The ADB, which since 1999 has made poverty reduction its overarching aim, supports the development of national poverty reduction strategies and in Azerbaijan has provided support to the Government in the formulation and implementation of SPPRED. In 2002 the ADB also adopted the MDGs as the principle targets for poverty reduction. Thus SPPRED has so far provided an excellent example of donor coordination between IFIs and also other members of the donor community. The UN organisations have also been actively supporting

the SPPRED process, and by combining the formulation and implementation of country-specific MDGs with the ongoing SPPRED activities and discussions, the excellent coordination and focussed efforts seen so far could be further enhanced.

SPPRED is a programme which sets out policy goals and priorities for the period 2003-2005. The MDGs, on the other hand, set goals and targets for the period up to 2015. The discussion of the formulation period as well as the first experiences of implementation could be taken as a basis for developing longer term goals and targets for poverty reduction, and for country specific MDGs.

During the period reported here (2003), preliminary discussions have been underway within the SPPRED Secretariat and line ministries on the most appropriate MDGs for Azerbaijan. There has also been discussion of these at the Regional Workshops held throughout the country (see chapter 7 for details). The table in Appendix 1 gives a summary of the country discussion so far, and some conclusions are reported in the relevant chapters in this report. Here we highlight just several key points:

SPPRED has so far identified its overall goals for poverty reduction and the next stage is to set concrete targets and indicators for these goals. In the formulation period, it was found that for most goals, the statistical basis for setting benchmarks and monitoring progress in achieving targets is still weak; and more time was needed for discussion of targets. However, setting concrete targets and indicators is a task which the Secretariat is currently working on, parallel to its work in building up the statistical base and capacity in the country. The concrete targets for both SPPRED and the country-specific MDGs will be developed together through dialogue with the relevant stakeholders, SWGs and local experts in the coming period.

One clear conclusion is that 1990 cannot be taken as a baseline for most country specific targets, partly due to lack of data, and sometimes due to the fact that it is considered inappropriate because it precedes a lot of the social collapse associated with the first years of the transition period. Thus use of 1990 would lead to an underestimation of the achievements of the country in overcoming the difficulties and drop in value of most social indicators in the 1990s, and

in some cases 1995 is considered more appropriate (see Appendix 1).

In the case of poverty figures, the baseline will have to be 2002, due to the lack of comparable data before this date (see chapter 2 for more details). Only from 2002 onwards will there be data collected on an annual basis in a consistent way, i.e. using the same survey methodology and allowing the same definitions of key welfare indicators. A new absolute poverty line has been prepared by the relevant SWG and this will be used to set the 2002 baseline.

It is expedient that the second global MDG of achieving universal primary education be replaced by the country-specific goal of achieving universal secondary education. Within this it is recognized that this only makes sense as a country goal if it is accompanied by the measures envisaged in SPPRED to improve the quality of and access to basic school education, and to ensure that curriculum reflects both the changing skill requirements of the new labor market and training in basic life skills. For monitoring purposes, it will be necessary to look not only at enrolment rates, but also actual attendance rates.

While goal three (promoting gender equality and empowering women) is considered important for Azerbaijan, the targets and indicators require further discussion. There will be less emphasis on literacy and quality of opportunity at the lower levels of education, but more on encouraging women to take on higher education that could create an opportunity for them to aim for top positions in economic and political life.

While goals four and five (reducing child and maternal mortality) are considered appropriate for Azerbaijan, the main problem encountered is the discrepancy between official data (based on administrative sources) and survey estimates for these indicators. With regard to Goal 6 (combating HIV/AIDS, malaria and other diseases), the goal is also considered appropriate, and discussion is taking place on the targets and indicators.

Goal seven (ensure environmental sustainability) is considered very relevant to Azerbaijan and is an integral part of SPPRED. However, initial discussion of targets and indicators has shown that targets regarding land areas covered by forest or guaranteed protection to maintain biological diversity will have to be set in a

sensitive manner, and involving local communities in the discussion. This is partly due to the need to ensure that the poor are not deprived of access to land and energy supply (firewood) in situations where supply of alternative energy sources cannot be guaranteed at affordable prices.

Setting a target for access to safe drinking water is considered appropriate for Azerbaijan, but this will require an improvement of the monitoring system, and also more work on clarifying the definition of "improved water source" to be used in the country. At present administrative statistics are available only on access to piped water, but there is no consistent monitoring of the quality of the water which is delivered through the pipes. For Azerbaijan it may be appropriate to set a target for increasing access to piped water in rural areas, and also to set indicators which rely on monitoring of the quality of the water being delivered to households. The latter will require improvements in the current monitoring system (as envisaged by SPPRED; see policy measure under health).

The global MDGs include a target aimed at improving the lives of slum dwellers. This concept is considered difficult to define and monitor in Azerbaijan. However, it may be appropriate for Azerbaijan to set a target, possibly for 2010 rather than 2015, aimed at ensuring that all IDPs are re-settled from accommodation with access to sanitation.

The final MDG (developing a global partnership for development) requires more country discussion, but a first proposal has been put forward to adapt this for Azerbaijan to a country-specific goal of "increasing FDI in the non-oil sector". This is completely compatible with SPPRED's key strategic aims of creating an enabling environment for income-generating opportunities, and of promoting economic development outside the oil sector and outside of the Absheron peninsula.

The country discussion of MDGs will continue in 2004, and targets will be developed as SPPRED also goes on to develop specific targets. In line with the recommendations made in the Joint Statement by the WB and UN on the relationship between MDGs and PRSPs (April 2003), this report should be considered as both an annual SPPRED report and the country MDG report.

Chapter 2: Poverty Monitoring

Introduction

One of the tasks of the SPPRED Secretariat is to coordinate work on monitoring trends in living standards in the country, using a variety of living standards indicators. In 2003, PMU was set up within the Secretariat to carry out this work. This chapter summarises the results of the work carried out by the PMU in 2003.

The chapter is structured as follows. Section 2.1 provides an update on the main indicators for monitoring economic development, while section 2.2 provides an update on the poverty estimates for the country, using the 2002 Household Budget Survey (HBS) data. Section 2.3 looks at available data on employment and unemployment. Section 2.4 summarises trends in education indicators, and section 2.5 looks at health indicators (including those relating to maternal and child welfare). Section 2.6 provides an overview of environment-related indicators, and section 2.7 looks at data relating to the living standards of IDPs and Refugees. Finally, section 2.8 summarises available data on social protection benefits and uses HBS data to do a preliminary analysis of the targeting efficiency of some of the benefits.

Due to time constraints, it was not possible this year to add a separate section on gender and MDG number 3 ("promote gender equality and empower women"). However, as far as possible, the data set out in the various sections below have been disaggregated by gender, and this year more work will be carried out on developing more detailed analytical papers on gender aspects of poverty.

2.1. Economic Development

Within SPPRED, the main tasks of economic policy are to: (i) maintain macro-economic stability (ii) build up local capacity in order to provide sound management of the large-scale oil revenues expected over the coming years; (iii) take forward the structural reforms already initiated and promote development of the non-oil sector; (iv) stimulate the development of entrepreneurship, investment and market infrastructure in the regions; (vi) and ensure Azerbaijan's integration into the world economic system and encourage FDI. While success in the

first two tasks are seen as a precondition for the implementation of all the poverty reduction measures envisaged in SPPRED; the last two are particularly relevant to the key strategic aim of creating an enabling environment to encourage employment creation and income generation. The economic indicators available for 2002-2003 are examined below in the context of these tasks.

1. Maintain macroeconomic stability

Gross domestic Product (GDP) growth increased by 11.2% in real terms (from 30,312.3 bln. AZM in 2002 to 35,053.4 bln. AZM in 2003). This is the highest rate of GDP growth since 1996, the year in which positive growth rates were first registered. Per capita GDP growth was 10.2% in 2002 and 10.3% in 2003, reaching 4.3 mln. AZM (879.7 USD) in 2003. The deflator index was 104.0% in 2003 (100.7% in 2002). The statistical data thus confirm that overall macroeconomic stability has been maintained for the period under review.

2. Sound management of the economy

There was a considerable increase in both budget revenues and in expenditure in 2002-2003. Thus, in 2002 revenues of the State Budget increased by 16% to 4,551 bln. AZM compared to 2001 (3,924 bln. AZM), and by 34.7% to 6,131.9 bln AZM in 2003. Expenditure increased by 13.1% to 4,567 bln. AZM in 2002, and by 32.5% (to 6,173 bln. AZM) in 2003.

The budget deficit decreased to 107.6 bln. AZM in 2002 (from 113.5 bln. AZM) and to 41.1 bln. AZM in 2003 (0.4% and 0.1% of GDP respectively). Both revenues and expenditure were in line with forecasts.

Expenditure is gradually being brought in line with SPPRED priorities. 17.3% was spent on social protection, 19% on education, 4.5% on health, and 19.4% on capital investments. The share of expenditure for wages, pensions and benefits to the population paid increased considerably (by 16.2%) and accounted for 2301 bln. AZM in 2002 and 2,676.3 bln. AZM in 2003.

The rate of inflation and exchange rate of the

national currency were maintained at an acceptable level, and money supply to the economy improved. The average annual inflation rate was 2.2% in Azerbaijan in 2003 which is 0.6% lower than in 2002. The average annual exchange rate of the national currency (AZM) to USD was 4,860.8 AZM in 2002 and 4,910.8 AZM in 2003.

Interventions by the National Bank (NB) in the currency market were purchase-oriented (USD 122.4 mln.) in the reported period and made up 3.5% of the total turnover. This purchase-oriented intervention helped to improve money supply to the economy and to prevent revaluation and symptoms of the "Dutch disease".

National currency reserves increased by 23.7% in 2003 and were 2,316 bln. AZM as of January 1, 2004. The money multiplier increased by 3.7%. Measures undertaken to reform the banking system, to develop banking infrastructure and especially, to improve the payment system, had a positive influence on this figure. In 2003, money mass in AZM (M-2) broadly increased by 28% and amounted to 2,592.2 bln. AZM. Since this process took place in a condition of low inflation, the real growth rate of M2 was higher - 25.2%.

The share of cash in the money mass decreased by 3.7% in this period. The cash money mass increased 22.3%, while non-cash money mass increased 54.4%. At the same time the level of dollarization also decreased. Thus, the share of foreign currency savings and deposits in total savings decreased by 2.3%.

The volume of savings and deposits increased by 35.3%. The volume of the savings by individuals increased by 64.2% to 1259.7 bln. AZM (compared to an increase of 31% in 2002). The share of private banks' savings in total savings was 41.5% in 2003. More importantly, while short-term savings of individuals increased 11.0%, long-term savings increased by 3.2 times, showing increasing confidence in the banking system. The structure of savings and deposits also suggests increasing confidence in the national currency - manat. Thus, while savings and deposits in foreign currency increased by 31.7%, savings and deposits in national currency increased by 54.4%. The average interest rates for manat deposits

decreased from 8.3% at the beginning of 2003 to 6.5% at the end of 2003.

In 2003, improvements in money supply to the economy and a decrease in the interest rates for deposits also had an impact on dynamics of the interest rates for credits. Thus, average interest rates for credit in the national currency decreased from 15.6% at the beginning of 2003 to 14.9% at the end of 2003.

The NB reduced its discount rate from 10% to 7% since September, 2002, and in 2003 the rate remained unchanged. Compulsory reserve norms for short-term deposits were 10% and for long-term deposits it was set at zero. Analysis shows that following the reduction of the compulsory reserve norms to zero, the long-term deposits began to increase. Thus, while short-term deposits increased 11.0%, long-term deposits increased 3.2 times.

Capital investments increased by 71.2% to 17.8 trillion AZM. At the end of 2003 the country's monetary reserves had increased by 14.4% in comparison with the previous year, from USD 1,374 mln. to USD 1,572 mln.

A rational foreign borrowing policy was continued in 2002-2003. The amount of the external debt paid off was USD 1,358 mln. (22.3% of GDP) as of January 1, 2003, and 1,508.1 mln. USD (21.2% of GDP) by November 17, 2003. The amount of external debt per capita was USD 182.5 (as of January 1, 2003 it was USD 166) as of 17 November, 2003. This is considerably lower than in other transition countries.

Due to large scale investment programmes, it is expected that oil and gas production in the country will further increase in the near future, and that the export of oil, oil products and gas will increase significantly. This can be expected to lead to a large inflow of foreign currency to the country, what will in turn drive up growth rates (which have averaged 10% in recent years).

However, growth rates based on the rapid exploitation of natural mineral resources such as oil and gas will have only a limited direct impact on poverty reduction and in fact complicate the management of the economy. Increases in the real exchange rate of the national currency could still lead to the "Dutch disease" in the mid-term,

i.e the “forcing out” non-oil sector by oil sector. Efforts to avoid this and maintain sound management of the economy will therefore have to be further strengthened.

3. Structural Reform and Non-Oil Sector Development

The share of the production and non-oil sector in GDP increased. Thus, while the share of production (including construction) was 57.3% and share of service sectors and net taxes from goods and imports, was 42.7% in GDP in 2001, these figures were 59.9% and 40.1% in 2002 and 63% and 37% in 2003 respectively. The share of the non-oil sector in GDP increased from 68% in 2001 to 70.4% in 2002 and to 71% in 2003.

There were positive changes in the sectoral breakdown of GDP in 2002-2003. The shares of industry, construction, wholesale and retail and service sectors increased, while the shares of agriculture, transport and communication, hotel, restaurant, social and informal service sectors and net taxes from goods and imports decreased.

The following information on differences between the shares of sectors in GDP for 2002 and 2003 visually reflects changes in the sectoral breakdown of GDP: industry -37.8% (34.9%); construction -12.1% (10.8%); wholesale and retail, service sectors on repairing household and private stuff -7.9% (7.5%); agriculture -13.1% (14.2%); transport and communication -9.5% (9.8%); hotel, restaurant, social and informal service sectors -12.6% (15.1%) and net taxes from goods and import -7% (7.7%).

Privatization led to a further increase in the share of the private sector in GDP. (from 71.8% in 2001 to 73% in 2002 and to 73.3% in 2003). By 2003, the private sector accounted for 53.4% in industry, 99.7% in agriculture, 88.7% in construction, 70.5% in transport, 68.9% in communication, 98.7% in trade and 71.2% in the paid service sectors.

While oil production increased by 0.3% to 15.38 mln. tons in 2003, industrial growth rate in the non-oil sector was higher than that for the oil sector. However, oil production is expected to increase rapidly in the near future as a result of the big international oil contracts signed since 1994. Thus, at present the key issue is to prepare the economy for large oil revenues and to create

an effective spending mechanism taking into account the importance of developing the non-oil sector. While the oil sector has the potential to generate high income for some period, it will not lead to the creation of new jobs (currently, a total 1-1.5% of the economically active population in the country is employed in this sector and no considerable increase of this indicator is expected in the near future).

In order to manage the revenues from the oil sector, and ensure that they are used in the interests of the future development of the country, the State Oil Fund of the Republic of Azerbaijan (SOFAR) was established under the Presidential Decree of December 29, 1999. There has been an increase of 65.8% (USD 692 mln. in 2002, USD 815 mln. in 2003) in the resources of the Fund. The Oil Fund was used to finance the following in 2003: 99.8 bln. AZM for resettling the refugees and IDPs driven out from their homelands as a result of Armenian aggression and financing measures to improve their social conditions; 576 bln. AZM for financing the share of the Republic of Azerbaijan in the project of Baku-Tbilisi-Ceyhan (BTC) main export pipeline; 500 bln. AZM transferred to the state budget. The expenditure related to the management of the Fund was 4.3 bln. AZM and the amount of the resources transferred to the state budget as tax was 12 bln. AZM.

Agricultural reforms lead to a real growth rate of 6.4% in 2002 and 5.6% in 2003. The share of crop production in agricultural production was 60% and of livestock production was 40% in the reported period.

The construction sector continued to be buoyant. This was partly due to the start of construction of BTC oil and Baku-Tbilisi-Arzurum (BTA) major gas pipelines. Thus, while the volume of investments directed to fixed capital was 5.9 trillion AZM in 2001, it amounted to 10.4 trillion AZM in 2002 and 17.8 trillion AZM in 2003.

The average monthly salary of those working in the formal economy increased 17.2% in real terms (nominal 21.4%) and reached 383,100 AZM (USD 78).

4. FDIs and Integration into the World Economy

Liberalisation and the opening up of the economy have resulted in an increase in the

rating of the country in some influential international organizations and in the volume of foreign investments in the economy (see Table 2.1).

Table 2.1. Dynamics of investments in the economy in 2001-2003 (mln. USD)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Foreign investments	150.0	375.1	621.0	1,307.3	1,472.0	1,091.1	927.0	1,091.8	2,234.9	3,273.3
Domestic investments	153.0	168.9	311.5	387.2	460.2	479.9	514.4	470.0	561.7	712.8
Total	303.0	544.0	932.5	1,694.5	1,932.2	1,571.0	1,441.4	1,561.8	2,796.6	3,986.1

Overall more than 17.5 bln USD has been invested in Azerbaijan's economy since independence, of which 12.5 mln. USD (71.4%) were in the 1994-2003. FDI account for more than 80% of all investments in the economy. Recently, investments in the non-oil sector, particularly to power, chemistry and petrochemistry, infrastructure and agriculture have been increasing. The amount of foreign investments increased by 46.5% in 2003, (3,273.3 mln USD); 93.5% was direct investment and 6.5% provided as credit.

Credit provided to the economy further increased in 2002-2003. Credits of 2,600.8 bln. AZM (71.9%- short-term, 28.1% -long-term) were allocated in 2002 and of 3,339.1 bln. AZM in 2003 (72.6% -short-term, 27.4% -long-term). This represents an increase of respectively 7% and 28.4% (5.7% in short-term credits and 25.3% in long-term credits) for appropriate years.

Foreign trade relations have expanded. Thus, according to the State Statistical Committee (SSC), the volume of foreign trade turnover increased from 3,745.2 mln. USD (61.8%-export, 38.2%-import) in 2001 to 3,833 mln. USD (56.5%-export, 43.5%-import) in 2002 and 5,218.2 mln. USD (49.7%-export, 50.3%-import)

in 2003. In other words, the volume of foreign trade turnover increased 2.3% in 2002 (export decreased 6.3%, import increased 16.4%) and 36.1% (export-19.6%, import-57.7%) in 2003 compared to 2001.

Foreign trade relations covered 124 countries in 2003 (128 countries in 2002), out of which 10 were Commonwealth of Independent States (CIS) countries. The share of CIS was 22.7% (23.3% in 2002), of the European Union (EU) 48.7% (48.4%) and of other countries 28.6% (28.3%) in the foreign trade turnover. While the share of CIS in export was 12.9% (11.3%), of the EU 65.6% (67.5%) and of other countries 21.5% (21.2%) it was 32.4% (39.1%), 32.0 (24.0%) and 35.6% (36.9%) in import respectively.

The negative balance of USD 34.2 mln. in the country's foreign trade balance in 2003 was connected with the increase in the import of investment-oriented goods related to realization of oil contracts.

The share of the "mineral products" category dominated in exports was 86.0% in 2003 and 88.9% in 2002. The share of oil and oil products prevailing in this group was 85.4% in 2003.

Table 2.2. Dynamics of basic indicators of the foreign trade in 1995-2003 (mln. USD)

Years	Turnover			Import			Export		
	Total	CIS, in %	Non-CIS countries, in %	Total	CIS, in %	Non-CIS countries, in %	Total	CIS, in %	Non-CIS countries, in %
1995	1,215.0	36.7	63.3	667.7	34.2	65.8	547.4	40.0	60.0
2000	2,917.0	20.9	79.1	1,172.1	32.0	68.0	1,744.9	13.5	86.5
2001	3,745.2	17.8	31.2	1,430.9	31.1	68.9	2,314.3	9.6	90.4
2002	3,832.9	23.3	76.7	1,665.4	39.1	60.9	2,167.5	11.3	88.7
2003	5,218.2	22.7	77.3	2,626.2	32.4	67.6	2,592.0	12.9	87.1

2.2. Poverty Update: the results for 2002

Background

The SPPRED document and strategy is based on an analysis of poverty in the country. The analysis was done on the basis of the results of monthly per capita consumption expenditure, derived from the 2001 HBS. It also made use of a new absolute poverty line, which was discussed and approved by the SWG on Poverty Monitoring during the SPPRED formulation stage. It was estimated that 49% of the population was living below a poverty line of 120,000 AZM. In 2001 using a relative poverty line of 72,000 AZM, (60% of median per capita consumption expenditure level), the poverty level was estimated at 17%².

The original intention was to monitor poverty levels in the country from 2001 onwards, using the same data source (HBS); the same welfare indicator (per capita consumption expenditure levels); and the same poverty lines³. However, unfortunately this has not been possible, principally for two reasons.

Firstly, the 2001 HBS was the first year of a newly designed survey. During this first year, the SSC received technical assistance from the ADB and WB aimed at further improving the survey methodology. As a result, a revised survey methodology was introduced in 2002, which affected the way in which information on consumption expenditure levels was collected and defined. Thus, although the welfare indicator used for ranking living standards of the population is the same for 2001 and 2002 (consumption expenditure), the estimates for the two years are based on different definitions and are therefore not comparable. This improvement in the quality of HBS data brings heightened value to the 2002 estimates of poverty in Azerbaijan, but unfortunately at the cost of a loss of comparability with the results of 2001.

Secondly, the absolute poverty line, which was elaborated by the Sector Working Group in the SPPRED formulation stage, has subsequently been developed further. In accordance with the Presidential Decree on the 2003 Budget, a draft version of new normatives for the calculation of the minimum consumption basket (the basis for the poverty line) has been developed by the SWG in 2003 and submitted to the CM. Once

approved, these will replace the current outdated legal normatives for the minimum consumption basket, which have been in force since 1992.

Due to the above developments, this report provides poverty estimates for 2002 only based on the 2002 HBS data - and by using the revised absolute poverty line. This implies that these results cannot be used to monitor poverty changes since 2001.

It is expected that the 2002 results will serve as the benchmark for all poverty monitoring exercises in the future. It is assumed that from this year onwards, there will be no more substantial changes made in the survey methodology, and also there will be an officially approved poverty line.

Poverty Line

As mentioned above the new poverty line is based on new normatives, and has been submitted to the CM for approval. It defines a minimum consumption basket not only for food products, but also for non-food products and services. Minimum consumption norms are calculated for these three consumption categories. The minimum consumption norms are further calculated for working age males, females, the pension age population, young children and teenagers; the average minimum consumption norms are then calculated using the weight of these population categories in the overall population. (The poverty line used to calculate the poverty levels reported for 2001 in SPPRED, on the other hand, only uses minimum consumption norms for the food basket, which is taken to represent 70% of the overall consumption basket.)

The prices used to calculate the cost of the minimum consumption basket vary according to the type of product:

The value of the minimum food basket is priced using the prices actually paid by the poor population (the lowest decile in the consumption expenditure distribution range), and the prices are taken from the HBS (the same source as was used in SPPRED). For 2002, the value of the minimum food basket was 121,465 AZM and the

² see SPPRED, Chapter 1: this result was considered to be an estimate of extreme poverty.

³ an absolute poverty line as defined in SPPRED Appendix 3 and a relative poverty line set at 60% of the median per capita consumption expenditure level.

share of the food basket in the overall minimum consumption basket is taken to be 69.4%. The share of the various baskets corresponds to their share in the consumption expenditure pattern of the poor population, as reported in the HBS results.

The value of the minimum basket for non-food products is priced using the minimum retail prices as recorded at the SSC, there are not enough observations in the HBS to use it as a source for prices of these products. For 2002 the value of the non-food product basket is estimated at 21,935 AZM and the share of this basket in the overall minimum consumption basket is taken to be 12.5%.

The value of the minimum basket for services for 2002 is calculated at 31,600 AZM and the share of this basket in the overall consumption basket is taken to be 18.1%.

The value of the total minimum consumption basket for 2002 is calculated as 175,000 AZM.

Poverty Estimates for 2002

As explained above, results for 2002 are based on the revised 2002 HBS, and by using an absolute poverty line of 175,000 AZM (described in the appendix). Within this poverty line, the

overall poverty level is estimated as 46.7% for 2002⁴.

A relative poverty line (70% of median per capita consumption expenditure) was set at 125,134 AZM⁵. The overall poverty level using this line is estimated at 8.8%, and this will serve as the revised estimate of extreme poverty in the country.

Poverty profile

The conclusions regarding the poverty profile for Azerbaijan can be summarised as follows:

- As in 2001, it is found that the poverty rate is only slightly higher in urban compared to rural areas (47.8% in urban areas and 45.4% in rural areas).
- The highest poverty incidence (62.9%) is found in the Nakhchivan AR, although only 6.1% of the country's poor population live in this region. The poverty level of 46.3% in Shaki-Zagatala region is closer to average level.
- In large cities the poverty level is noticeably less than in smaller towns: 44.5% compared to 53.5%. Despite the fact that the poverty level in Baku is less than the average level (40%), the largest share of the poor population (21%) lives in Baku.

Table 2.3. Poverty Incidence by Categories of the Population (individuals)

Category of the population	Poverty levels	
	Absolute poverty line	Relative poverty line
<i>(individuals)</i>	<i>(175,000 AZM)</i>	<i>(125,134 AZM)</i>
Total population	46.7	8.8
Urban	47.8	9.6
<i>of which:</i>		
Large city	44.5	9.7
Town	53.5	9.3
Rural	45.4	8.0
Nakhchivan	62.9	13.1
Absheron-Guba	47.1	13.0
Mughan-Salyan	45.9	6.7

⁴ As with the previous year's results, it was decided not to use an equivalence scale when calculating the poverty estimates. See SPPRED, Appendix 3.

⁵ The Poverty Monitoring Group has decided that the relative poverty line will be set at 70% of the median per capita consumption expenditure level, whereas it was set at 60% for the 2001 results. It is intended to use 70% in the future for monitoring purposes.

Ganja-Gazakh	49.6	5.6
Shaki-Zagatala	46.3	5.7
Lankaran-Astara	48.1	7.8
Shirvan	55.4	7.2
Karabakh-Mil	43.5	11.8
Baku	40.0	9.1
Male	46.3	8.9
Female	47.1	8.8
0-15 years old	52.8	10.3
16-29 years old	44.9	8.8
30-39 years old	47.7	8.8
40-49 years old	42.7	7.7
50-59 years old	39.1	7.9
60 and more years old	42.7	7.2

The above table refers to categories of individuals. We now look at data regarding household categories.

Table 2.4. Poverty Incidence by Characteristics of the Household and Head of Household

Household	Poverty levels Absolute poverty line (175000 AZM)	Poverty levels Relative line (125134 AZM)
<i>Head of household has:</i>		
Higher education	30.4	5.6
Secondary education	40.29	7.1
Less than secondary education	49.6	8.3
Households without children	24.3	4.1
Households with 1 child	40.8	8.0
Households with 2 children	47.2	8.2
Households with 3 children	59.1	11.7
Households with 4 + children	69.35	18.7
<i>Age of household head:</i>		
18-29 years old	24.06	6
30-39 years old	41.04	6.4
40-49 years old	41.0	6.3
50-59 years old	36.63	7.6
60 and more years old	41.0	6.8
Single person household	7.9	0.8
Household with 2 members	16.7	1.8
Household with 3 members	23.8	3.4
Household with 4 members	35.4	4.8
Household with 5 members	50.1	8.6
Household with 6+ members	58.3	14.3
Head of household is male	40.9	7.3
Head of household is female	36.1	6.4

The main results can be summarized as follows:

The higher the education level of the head of

the household, the lower probability of the household being poor. The poverty risk for households where the head of household has

higher or secondary level education is less than the average poverty level in the country.

- The poverty risk increases the greater the number of household members. The poverty risk among households with fewer than 4 members is relatively low. But the poverty risk increases dramatically once the number of members reaches 5 or more.
- The poverty level is less than the average only among households without children and with 1 child. There is much higher poverty level among households with three, four or more children. The poverty risk for households without children is much less than the average; but only 1 child in a family increases this poverty level for 16.5%. Poverty incidence increases to 34.8% for households with 3 children and 45.5% for households with 4 or more children.
- The poverty level of households with a male head of household is 4.8% less than that for households headed by a female head.
- The poverty profile overall confirms the picture derived from the 2001 results, but the ranking of the regions by poverty incidence is slightly different, with Nakhchivan having a higher incidence. However, it is too early to draw policy conclusions from the above results, as they will have to be monitored in the coming years to test their robustness.

Poverty gap

For policy purposes, it is useful to look not just at the numbers below the poverty line, but at the depth of poverty, i.e. how far below the poverty line the poor are. The poverty gap for the absolute poverty line is 0.0822. In other words the average consumption expenditure of the poor population is 8.2% less than poverty line.

Inequality

Inequality is measured by looking at the distribution of income or expenditure levels

among the population. The Gini coefficient is the most common measurement of inequality. Calculations using this formula show, that in 2002 the Gini coefficient was equal to 0.271 (using income distribution) and 0.276 using expenditure (calculated on the basis of the 2002 HBS results).

Further improvement of the HBS may be required in order to ensure that we are capturing all income/expenditure; including those from the informal sector and self-employment, and that incomes from the top deciles are not being underestimated.

2.3 Employment

As it was shown in SPPRED, the post 1995 period differs from the initial transition period in that it marks the beginning of economic growth, stimulated in large part by oil-related activities. However, foreign investment in Azerbaijan's petroleum wealth has so far created relatively limited job opportunities.

Analysis of employment trends has so far been complicated by the fact that there is no labour force survey (LFS) carried out regularly, and administrative data cannot capture the effect of the informal sector on employment levels. However, the situation is changing with the introduction of a LFS, carried out by the SSC with support from the UNDP and International Labour Organization (ILO). Some results from the first round of the LFS (spring 2003) are reported below.

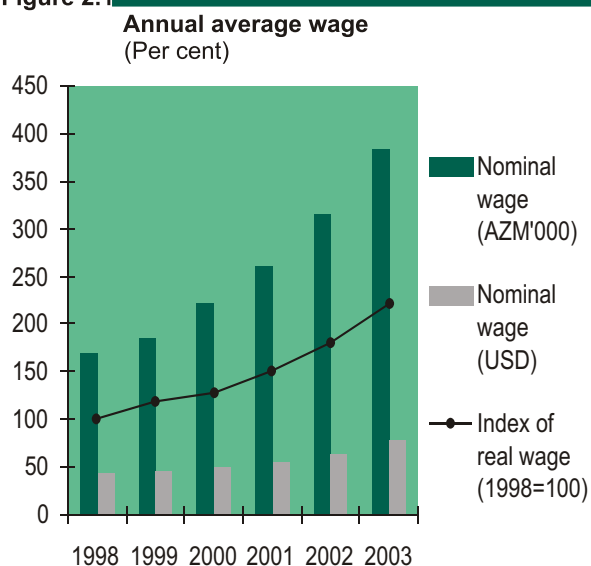
According to administrative data, there was a 0.6 % increase in the annual average number of employed people in the working age groups during 1998-2002 (3,701,500 3,726,000). At the same time GDP in non oil sector increased by 26.8 % which points to growth in labour productivity in the country.

Official statistics also show that in 1995-2002 the average number of employed people increased by 35% (1,112,800 1,497,500) in the agricultural sector, while decreasing by 8.2% (1,963,000 1,801,000) in the service sector and 20% (537,200 428,600) in the industry sector. It is important to note that growth in agricultural employment is directly related to the land reform, which has resulted in the allocation of small land plots to most of the rural population who are considered to be employed⁶.

⁶ see Law on Employment, article 3

Since output growth primarily resulted from an increase in productivity, wages and salaries rose substantially, while employment increased only marginally. The average reported monthly wage was 21.4% higher in nominal terms (22.2% in real terms) in 2003 than in 2002. The minimum wage was increased from 27500 to 60000 manat in January 2004, leading to wage increases in the public sector and increases in social benefits linked to the minimum wage. The labour force participation rate also varies

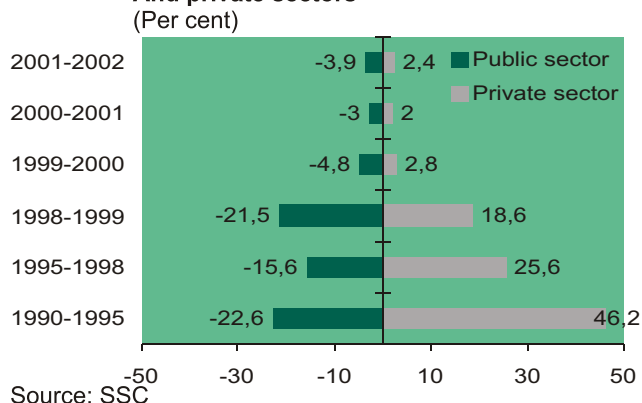
Figure 2.1



Source: SSC

Structural changes in the economy have been accompanied by redundancies in the number of people employed in the public sector. The number of people employed in the public sector has decreased by approximately 2.1 times since 1990, and was 1.192 mln. in 2002. At the same time, the numbers employed in the non-state sector has increased by 2.3 times and was 2.535 mln. in 2002. Annual growth rates for public and private sectors show that the decrease in employment in the public sector has been greater than the increase in the private sector since 1998 (see Figure 2.2) which suggests either an increase in unregistered unemployment, or an increase in informal employment.

Figure 2.2
Growth rate of employment in public
And private sectors
(Per cent)



Source: SSC

Due to the relatively favourable age structure of the population, reflecting the high fertility rates in the past, decline in death rates, and an increase in life expectancy, the number of working age population in Azerbaijan increased from 3.973 mln. in 1990 to 4.988 mln. in 2002, or by 25%. In the coming years, the greater number of new labour market entrants will have a significant impact on labour supply. This growth in the young entrants especially reflects high birth rates in the 1980s.

Data on the employed and unemployed population have until now been derived from administrative sources which cannot provide a full picture of the economically active and inactive population in the country; they do not cover all the working population and cannot capture persons without work who are not registered with employment offices. For example, according to state statistics there were 50,963 unemployed persons officially registered at the employment offices in 2002, which is only 1.4 percent of the total economically active population. However, for the first time the results of the new (2003) LFS can be used to give more realistic estimates.

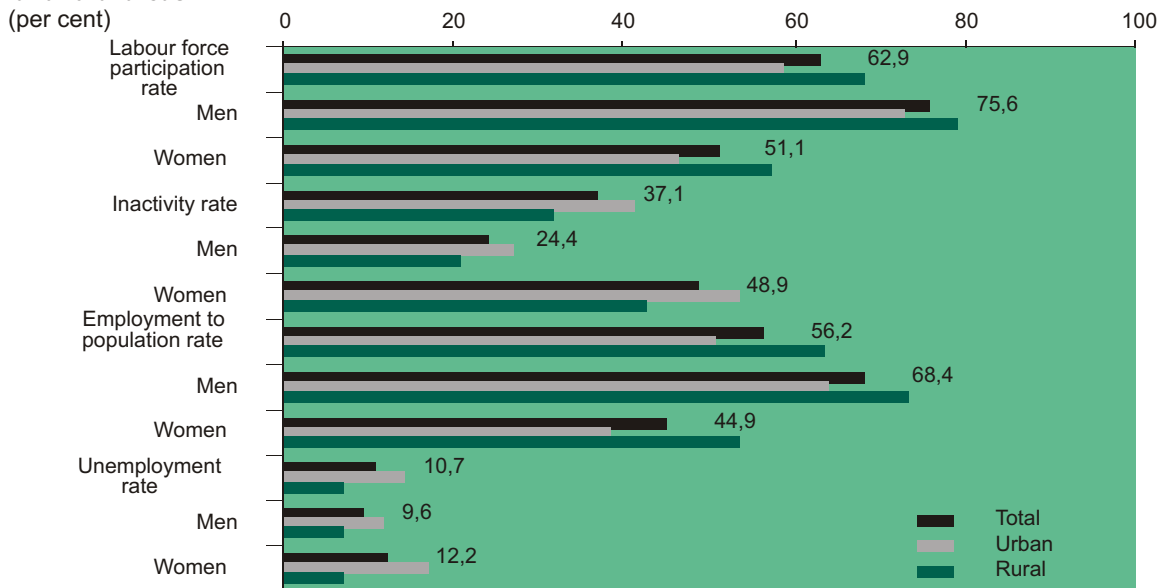
The results suggest that the labour force participation rate⁷ (LFPR) for the population age 15 years and over was 62.9%, (75.6% for men and 51,1% for women). By international standards this can be considered a high LFPR. These results are consistent with those calculated on the basis of the 1999 population census, which showed that the LFPR was 64.6%, (73% for men and 57.2% for women)⁸. The slight decrease in the LFPR can be explained by the higher inactivity rate for women in Figure 2.3.

⁷ Labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the population 15 and over.

⁸ Labour market developments in Azerbaijan, A.Kuddo ECSHD

Figure 2.3

Labour force participation by urban and rural areas



Source: Labour force survey, 2003, SSC

The labour force participation rate also varies by urban and rural areas. Unemployment and inactivity rates are higher and the employment rate is considerably lower for urban areas. The high employment rate in rural areas is the main contributor to high labour force participation and employment in the country. But, as mentioned above, this is closely related to land reform in the second half of 1990s.

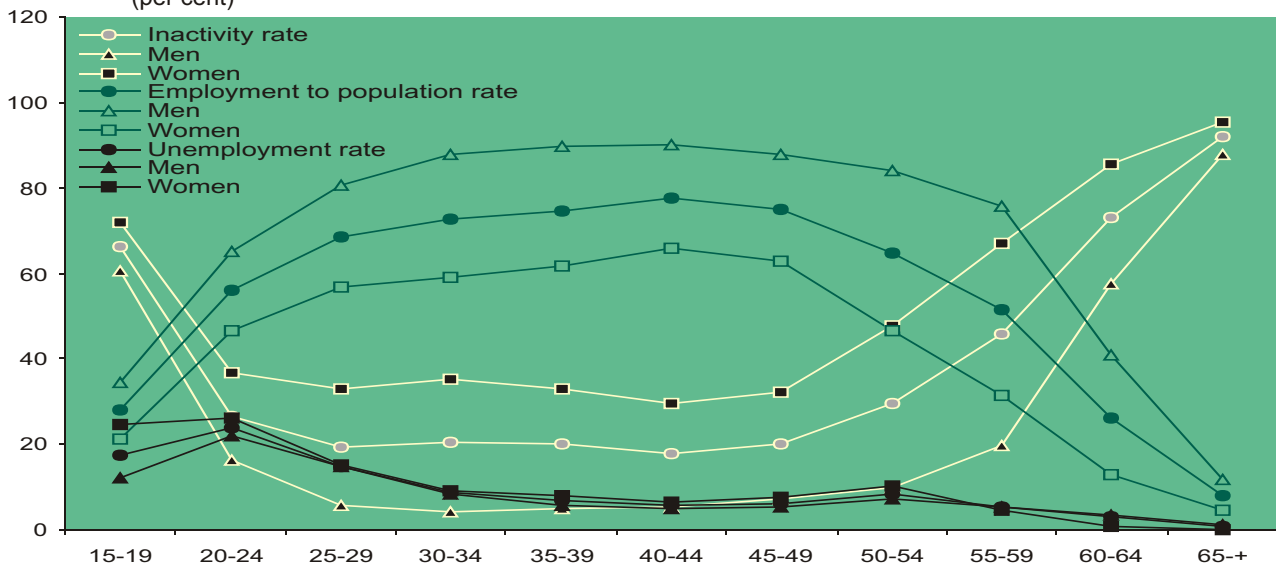
56.2%, which means that almost half of the population over 15 years depend on the income generated by other employed people in that age group. Figure 2.3 also shows that women and urban people seem to be more dependent on employed people.

The employment to population ratio⁹ equalled

Employment and unemployment rates have significant gender and age dimensions. Employment to population rates for men exceeds that for women by 23.5% point (68.4% and 44.9%).

Figure 2.4

Labour force participation rate by gender and age groups

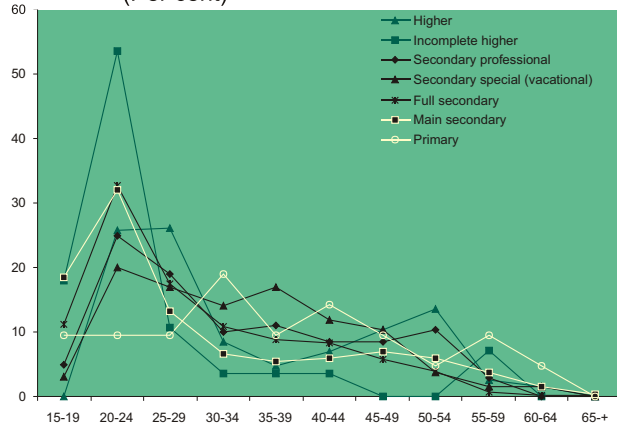


Source: LFS, 2003, SSC

⁹ Employment to population rate expresses the employed people as a percentage of the population 15 and over

The highest inactivity rate¹⁰ for both genders is observed in the lowest and highest age groups, which are the categories dominated by the student, school-pupils and pensioner population. However, it should be also noted that inactivity rate for women in the 25-59 age groups years are significantly higher than that for men.

Figure 2.5
Unemployment rate by the levels of education
(Per cent)



Source: Labour force survey, SSC, 2003

The overall unemployment rate¹¹ is estimated at 10.7%. The highest unemployment rate was 23.8% among youth in the 20-24 age group. Figure 2.5 suggests that the unemployment rate among 20-24 age groups with all education level is higher than for any other age category. The highest unemployment rate was 53.6% at the 20-24 years with incomplete high education. The second highest unemployment rate was observed for the 20-29 years age group with high education.

The unemployment rate for the 20-29 year old age group with higher education (26%) suggests that graduates from that age group are particularly affected by the mismatch between qualifications and the skills in demand in the labour market.

2.4 Education

Background

Azerbaijan has long shown an awareness of the need to invest in and maintain its human capital, and in particular the value of having a well-educated population. The results of the

population censuses, which have been carried out every ten years since 1939, show that there has been a steady increase in the literacy rate, and the latest census data (from 1999) show that the literacy rate for the country is 99%. It is estimated that 97% of the adult population have completed (at minimum) primary school education. There are no significant gender differences in literacy rates and completion of primary education.

The links between education and poverty are well documented. A better-educated population is inter alia more able to find employment, and is more likely to bring up a healthy young generation. The results of the latest HBS (2002; see chapter 2) confirm that the higher the level of education of the head of the household, the lower the probability that the household will be poor.

However, the SPPRED document has pointed out that, despite its impressive educational achievements, Azerbaijan is currently facing serious problems in maintaining the quality of its education system, and in adapting it to the demands of a transition economy. There are signs that the younger generations are not investing in their education, that it is not being looked upon as a tool to defend them from poverty; i.e. the returns to education are not considered worth the investment required to go beyond the compulsory stages of education. There is a danger that this will lead to a certain decline in the country's human capital.

The SPPRED document states clearly that one of the main strategic aims of the country is to maintain the good education indicators inherited from the Soviet period, while also re-orientating the country's education system to the needs of a market economy. One of the six key strategic aims of SPPRED is "to improve the quality and equality of access to basic health and education services". Within the education sector, SPPRED stipulates 12 policy directions aimed at both improving the quality of education and equality of access. SPPRED also envisages a rationalisation of education expenditure, to be achieved through rationalisation of the teaching staff (see MTEF). The rationalization measures are to be accompanied by a rise in teachers' wages and a new system for linking performance to bonus payments.

¹⁰ Inactivity rate is defined as a proportion of the population that is not in the labour force

¹¹ Unemployment rate expresses the unemployed people as a percentage of the population in the labour force

Education and the MDGs

MDG number 2 is formulated at the global level as “achieve universal primary education” (see chapter 1). According to the 1999 census data for Azerbaijan, 975 out of every 1000 persons in the 15-24 age group had completed at least primary school education. In this index, women are slightly ahead of men (980 per 1000 compared to 971 for men); and there are almost no urban and rural differences (975 compared to 976). Thus clearly MDG number 2 will have to be adapted to reflect the fact that universal primary education is already a reality in Azerbaijan.

As mentioned above, one of SPPRED's key strategic objectives, is to improve the quality of, and equity of access to, basic education services by 2005. Within this framework, discussion has begun on identifying a country specific MDG for Azerbaijan in the field of education.

Comparison of the 1989 and 1999 census data shows that the share of the population over 15 years old with secondary education (complete and incomplete) has increased significantly. This figure was 878 per 1000 in 1989, 909 in 1999 and 909, 910, 910, 911 in 2000, 2001, 2002, and 2003 respectively (see Table 2.5). It may be appropriate for the country to aim to improve its enrolment rates for secondary education further, especially for upper secondary education. However, this will be a viable goal for Azerbaijan only, if efforts are continued under SPPRED to improve the quality of education in secondary schools. Participatory discussions carried out in 6 regions of Azerbaijan have shown that the population considers improving quality of education and access to secondary education as one of the main problems (see chapter 7 for details on the Regional Workshops held in 6 regions). For this reason the goal of achieving universal primary and near-to-universal secondary education (11 classes) is put forward as a tentative proposal for a country-specific MDG.

Table 2.5. The education level of ages 15 and above. (1999 census data)

Year	higher and secondary education (complete or incomplete)	Higher	Incomplete higher	Vocational	General secondary	Incomplete secondary	Urban	Rural	Female	Male
1989	878	105	20	144	417	192				
1999	909	106	8	126	518	151	926	890	922	934
2000	909	197	9	124	519	150				
2001	910	108	9	122	520	151				
2002	910	109	9	122	519	151				
2003	911	111	9	120	521	150				

Source: SSC

As mentioned above, the literacy rate of population according to the 1999 census data is 99%. The literacy rate of 15-24 year olds (MDG indicator 8) is not therefore considered appropriate for Azerbaijan, however it should still be monitored for the purpose of international comparison.

Trends in Education Indicators

(a) Pre-school education (3-6 years)

Pre-school education in Azerbaijan has suffered a considerable decline over the last decade. This is

partly due to the disappearance of pre-school facilities, which were provided under state enterprises and local government in the Soviet period, and partly due to the priority given by the government to concentrating resources on maintaining basic/secondary education. The number of pre-school facilities decreased steadily in the 1990-2002 period (a total of 404 facilities closed down). While gross enrolment rates for children in pre-school institutions decreased by 5% in 1990-1995, this figure has increased by 1% annually from 1997 onwards. Despite this, overall gross enrolment rates remain relatively low (19% in 2002; see Table 2.6), and there are significant differences between urban and rural enrolment rates.

Table 2.6. State Pre-school Facilities

Urban and rural areas	1990	1995	1997	1998	1999	2000	2001	2002
Children's gross enrolment ratio in pre-school institutions	20	15	14	15	16	17	18	19

Source: SSC

(b) Basic education

Basic education covers primary education (classes 1-4); middle secondary (classes 5-9); and upper secondary (classes 10-11). Enrolment in classes 1-9 is obligatory.

Gross enrolment rates for primary school (classes 1-4) were relatively low in 1990 (84.2%), but have since increased to 98.8%. The tendencies in middle secondary education in 1990 - 2002 resemble those reported in primary

education. The gross enrolment rate for children in the 5-9 classes peaked in 1990 (90.2%). A decrease in the gross enrolment ratio was observed in 1998-99 (12% lower compared to 1990). Since 2000 this index increased and in 2001 and 2002 the gross enrolment ratio was close to the 1990 rate. Gender differences in the net enrolment rates are again very slight. But since 2000 gross enrolment rates in urban areas have been higher than in rural areas: in 2000 by 5.4%, in 2001 by 8.7%, and in 2002 by 12%.

Table 2.7. Gross enrolment ratio for basic education (classes 5-9)

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	90.2	81.1	79.1	78.7	86.5	89.6	88.8
Male	89.6	77.2	78.9	78.4	87.1	90.4	89.8
Female	90.9	85.2	79.2	79.1	85.8	88.9	87.7

x) State and private

Urban enrolment rates

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	89.6	81.4	78.7	79.1	89.2	94.0	94.9
Male	89.1	78.2	78.3	78.6	89.7	94.6	96.2
Female	90.1	84.8	79.1	79.6	88.6	93.4	93.5

x) State and private

Rural enrolment rates

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	90.9	80.8	79.4	78.3	83.8	85.3	82.9
Male	91.2	76.2	79.5	78.1	84.5	86.2	83.7
Female	90.5	85.7	79.4	78.5	82.9	84.4	82.0

x) State and private

Source SSC

In order to estimate the quality of and access to the basic education it would be more relevant to compare the enrolment rates with attendance

rates. Both the SSC and the Ministry of Education (ME) do not provide such kind of information.

(c) Upper Secondary education (classes 10 - 11)

Unlike the previous stages of basic/secondary education, upper secondary education is not obligatory. However, enrolment in these classes has a direct impact on the numbers and quality of applicants for higher education. The results of the 1999 census showed that 41% of the urban population and 50% of the rural population had completed full secondary education. The gross enrolment rate for 10th-11th classes in 2002 (63.4%) almost reached the pre-transition (1990) rate of 66.7% (see Table 2.8).

The net enrolment rates for 10th-11th classes

were 43.2% in 2001, and 63.4% in 2002. This sharp increase is due to the school reforms of 1989, which introduced 11 years of schooling instead of the traditional 10 years. As can be seen from Table 2.8, there are some gender differences in enrolment rates. In 1990 female enrolment rates were slightly higher than male ones in upper secondary education both in urban (6.1% higher) and rural areas (4.7% higher). This tendency is still noted in urban areas. There has been a small but consistent discrepancy between enrolment rates in urban and rural areas (65% for urban areas in 2002 and 62% for rural areas). Again information on attendance rates is not available.

Table 2.8. Gross enrolment ratio for upper secondary education (classes 10-11)

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	66.7	48.7	61.3	60.8	44.5	43.2	63.4
Male	64.0	46.5	60.0	59.6	44.0	42.6	63.4
Female	69.4	51.0	62.6	62.1	45.0	43.7	63.5

x) State and private

Urban enrolment

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	62.3	50.6	64.9	64.1	41.8	40.4	65.0
Male	59.3	48.6	63.7	62.8	41.2	39.0	63.3
Female	65.4	52.6	66.1	65.5	42.4	41.8	66.7

x) State and private

Rural enrolment

	1990	1995	1998	1999	2000	2001	2002 x)
Gross enrolment ratio	70.9	46.7	57.5	57.4	47.4	46.1	61.9
Male	68.6	44.3	56.2	56.4	47.0	46.4	63.4
Female	73.3	49.2	58.9	58.6	47.8	45.8	60.3

x) State and private

Source SSC

(d) Vocational education

One of the main strategic objectives of policy measures in the education sector is to ensure that vocational education provides skills appropriate to market economy. Enrolment rates

in vocational education have declined considerably over the last years: from 1990 to 1995 the gross enrolment rate decreased by 10.6%, and in 2002 this indicator was 12.6% below the 1990 level.

Table 2.9. Gross enrolment rates in vocational education

	1990	1995	1998	1999	2000	2001	2002
Gross enrolment ratio	15.5	4.9	3.8	3.6	3.4	3.1	2.9
Net enrolment ratio	14.9	4.2	3.5	3.2	3.1	2.8	2.6

Source SSC

(e) Higher education

Higher education has always occupied a special place in Azerbaijan. The first University in Azerbaijan was founded in 1918, and at the time of the first Democratic Republic. Baku State University was also the first educational institution in the Moslem East. Many higher education institutes were established in the Soviet period. The results of the population

censuses from 1939 onwards show a steady increase in the number of people with higher education between 1939 and 1999. If in 1939 there were 10 persons (per 1000) with higher education, in 1999 the figure was 91. Female enrolment rates also steadily increased in the pre-transition period, however, Table 2.10 shows that female enrolment for higher education courses is still slightly lower than male enrolment.

Table 2.10. Gross enrolment rates in higher education (for 17-22 year olds)

Indicators	Unit	1990	1995	1998	1999	2000	2001	2002
Gross enrolment	total	12,6	12.6	12.7	13.5	13.4	13.1	12.5
Net enrolment	total		8.3	8.6	9	11.9	11.2	10.6
Gross enrolment	male	15.1	13.8	15.7	16.2	15.6	14.4	13.6
Net enrolment	male		8.5	10.0	10.5	13.6	12.2	11.3
Gross enrolment	female	10.0	11.3	9.8	10.8	11.2	11.7	11.3
Net enrolment	female		8.0	7.3	7.6	10.1	10.1	9.9

Source SSC

2.5 Health

Background

Poverty is closely connected with the population's health status. Poor health indicators affect individuals' well-being, their potential to earn income, and children's ability to attend and perform well at school. Poor people sometimes do not have enough financial resources to use available health services, or just do not have access to basic services. Individuals with poor health are more likely to pass on their poverty to their children, and thus create a vicious cycle of poverty.

The available data on health indicators suggest that in the first years of independence the health status of the population deteriorated. However there are some signs that the negative trends have been reversed since the mid 1990s (see SPPRED chapter 1).

SPPRED envisages a series of policy measures which will help ensure equal access

to basic health services, and improve the quality of primary health care services. A total of 11 policy directions were identified to address these problems. The problems of guaranteeing quality of basic services have been compounded in the transition period by the drop in the share of government expenditure going to health sector, as well as by the drop in real wages of health sector employees¹². The latter has contributed to the rise in informal payments in the sector. The combination of formal (paid services and costs of medicine) and informal payments means that parts of the poor population cannot afford to use public health services. The 11 policy directions also incorporate measures aimed at improving child and maternal welfare, and combating diseases such as HIV/AIDS, tuberculosis and malaria, which are most likely to affect the poorer sections of the population.

There are three MDGs which are linked to SPPRED's objectives within the health sector, namely reduction of child mortality (goal 4);

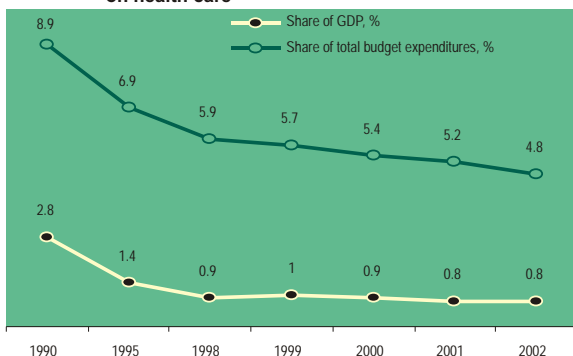
¹² Health sector wages went up by 50% in July 2003

improving maternal health (goal 5); and combating HIV/ AIDS, malaria and other diseases (goal 6). The links of these goals to SPPRED, and the problem of setting country specific targets for these are discussed below.

Public Expenditure on Health

Public expenditure on health care as a share of GDP and a share of total budget expenditures has gradually decreased in the transition period (Figure 2.6). In 2002 public health expenditure totalled about 0.8% of GDP in comparison to 2.8% in 1990. This is the lowest level of expenditure among CIS countries, and is one of the lowest in the world¹³. (The average level for low-income countries is about 1.2% of GDP)¹⁴. SPPRED envisages a rise in public expenditures on health to 1.2% of GDP by 2005. The share of health expenditures in total budget expenditures also dropped from 8.9% in 1990 to 4.8% in 2002. The decrease in public expenditure on health has contributed to the deterioration in the quality of healthcare services and indirectly to the deterioration in the population's health status.

Figure 2.6. Public expenditures from the state budget on health care



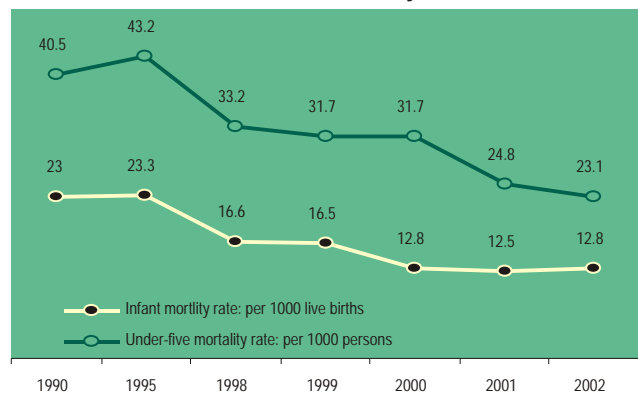
Source: SSC

Child Welfare: Infant and Under Five Mortality Rates

According to official statistics, infant mortality (death of child before reaching 1 year of age) rates peaked in 1993 (28.2 per thousand live births) and have since gradually decreased. In

2002 the official infant mortality rate was 12.8 per thousand live births. The under-five mortality (death of child before reaching 5 years of age) rate also increased until the mid 1990s (45.2 per 1000 children in 1994), after which it began to decrease, reaching 23.1 per 1,000 in 2002. More than half of under-five mortality is caused by infant mortality.

Figure 2.7. Infant and under-five mortality rates



Source: SSC

These official statistics are based on administrative data collected from medical facilities. However, evidence from survey data suggests that official statistics underestimate the real situation in the country. Two recent surveys have provided much higher estimates of infant and under 5 mortality. The results of UNICEF's Multiple Indicator Cluster Survey (MICS)¹⁵ suggest that the infant mortality rate was close to 79 deaths per 1,000 infants and the child mortality rate (under 5 years old) was 102 in 1996. Infant mortality accounted for more than 77% of under 5 mortality. The results of the Reproductive Health Survey (RHS)¹⁶ carried out in 2001, provide an estimate of 80.8 for infant mortality and 92.2 for under 5 mortality for the 1991-2000 period. Infant mortality rate accounts for 88% of under 5 mortality. The RHS results suggest that infant and under five mortality declined in the 1996-2001 period, compared to the 1991-95 period (infant mortality from 74.4 to 85.9 and under five mortality from 96.8 to 88.4).

¹³ For example, the indicator is equal to 1.1 in Cameroon, 2.6 in Senegal, 1.0 in Tajikistan, 3.4 in Georgia, 3.8 in Russia, 1.9 in Romania, 4.2 in Poland, 5.3 in Slovakia, 0.6 in Afghanistan, 0.9 in Pakistan, 3.6 in Turkey, 5.1 in Israel, 0.8 in Germany and 5.0 in France. Source: United Nations Population Fund (UNFPA), State of world population 2003. Making 1 billion count: investing in adolescents' health and rights. Data refer to the most recent estimates 1998-2001.

¹⁴ Source: Schiller, Christian, Gabriela Inchauste and Jan Walliser, "Azerbaijan: Continuing Public Expenditure Reforms". IMF, August 2000.

¹⁵ Source: Azerbaijan MICS, 2000. SSC, UNICEF, 2000.

¹⁶ Source: RHS: Azerbaijan, 2001. Final Report. Edited by: Florina Serbanescu, Leo Morris, Shafag Rahimova, Paul W. Stupp. Adventist Development and Relief Agency, Azerbaijan MOH, SSC, Mercy Corps: Baku, Azerbaijan. Division of Reproductive Health, Centers for Disease Control and Prevention, and others: Atlanta, Georgia USA; March, 2003.

Discrepancy between official and survey results for infant and under five mortality

Administrative data: There is some evidence that infant mortality rates may be underestimated due to the way in which administrative data is collected.

1. Registration of infant deaths. Until recently official statistics were based on two sources: one was administrative data collected through the MOH and the other source was administrative data collected through the SSC. The MOH collects data from medical facilities (monthly from maternity hospitals and annually from pediatric wards and polyclinics). However, medical facilities may misclassify very premature babies as miscarriages, and early neonatal births as stillborns, because infant mortality is often used as an indicator to evaluate the performance of the facilities. Infant deaths following home deliveries may not always be reported. The SSC used to collect the data from urban and rural civil registry bureaus (where relatives apply for official death certificates). Infants who die before having birth certificates issued may remain unregistered as either a live birth or an infant death. Infants delivered at home are most likely not to be registered. So, the data given by SSC reflected more cases of mortality than MOH data. Now the SSC only publishes the data from medical facilities in order to accelerate the process of data collection.

Survey data: The survey data is derived from sample surveys. In the case of Azerbaijan there have been two sample surveys carried out in recent years, namely the MICS carried out by UNICEF and the SSC in 2000 and the Reproductive Health Survey carried out in 2001. The samples are designed in such a way as to ensure that the results can be considered representative for the whole country. As with all survey data, there are confidence intervals within which we can estimate with 95% confidence where the true value lies. Thus for infant mortality the estimate from the RHS is 80.8, but the rate could be within the range of 72 to 89.6 (see RHS, pp103-104).

2. Definitions: Until 2001, Azerbaijan used the Soviet definition of infant mortality, which did not count as live births premature and low-birth-weight babies who die within seven days after birth. Any infant with signs of life present at the time of delivery but whose weight was less

than 1,000g, had a gestational age of less than 28 weeks, or measured less than 35 cm and died within the first 7 days of life was classified as a miscarriage or stillbirth. (RHS p105) The WHO standard definitions include any infant born alive, irrespective of the duration of the pregnancy that breathes or shows any other signs of life after separation from the mother. This difference means that the survey is more likely to have higher estimates for early neo-natal mortality (first 7 days of life). This cannot account for all the difference between official data and survey estimates. Under-reporting of births and infant deaths to civil registries, particularly those for infants not delivered at medical facilities is likely to be the most important reason.

To summarise: there are problems with both of the sources of information on infant and under five mortality rates. However, both sources should be used for monitoring, and efforts should be made to improve data collection using both survey and administrative methods. Measures are already being taken to improve the registration of infant and child deaths (see below).

Child Welfare: Malnutrition, Breastfeeding and Immunization

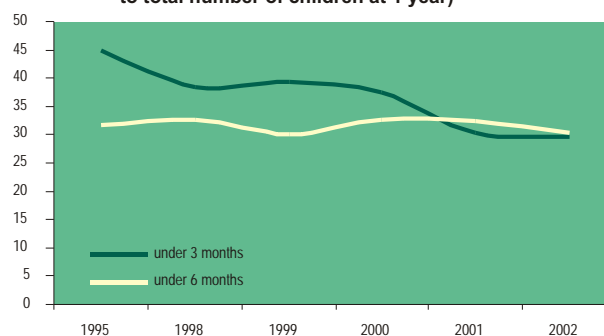
The country has no regular way of collecting information on wasting and stunting of children, which is a good way to monitor child health status. These indicators are the direct results of children's malnutrition. The RHS provided one-off estimates for 2001 and UNICEF's MICS survey for 2000. It is planned to repeat the MICS survey in 2004. Repetition of such surveys every 3-4 years would be extremely useful in monitoring poverty and living standards, and the effects of poverty on children's health and development.

According to the MICS results, the proportion of under-five stunting (height-for-age) children in 2000 in Azerbaijan was 19.6%, of underweight (weight-for-age) children 16.8% and of wasting (weight for height) children 7.9%. The first two indicators were higher in rural than urban areas: 21.7% to 17.2% and 18.5% to 14.9%, respectively. Regionally, the highest levels of these indicators were found in Nakhchivan (23.7% and 19.6%, respectively) and Western & South-West regions (25.1% and 22.4%). The estimates for the third indicator for urban and rural areas were almost equal 8.0% to 7.9% and the highest level was observed in Western & South-West (10.7%), and Central & Northern (8.3%) regions. According to the RHS, the prevalence of chronic malnutrition

(height-for-age) among children aged 3-59 months was 13.3%, general malnutrition (weight-for-age) 6.8%, and acute malnutrition (weight-for-height) was 2.4% in 2001¹⁷. Usually, a low weight-for-age is considered an indicator of chronic malnutrition when a low prevalence of acute malnutrition exists. Because the total rate of acute malnutrition was low among under-five (3-59 months) Azeri children, the 6.8% rate of general malnutrition is probably a reflection of the higher rate of stunting in children¹⁸. RHS also provided higher estimates for stunting (chronic malnutrition) and underweight (general malnutrition) children in rural areas 15.9% and 7.8%, respectively (the indicators were 10.6% and 5.8% in urban areas). Regionally, children living in Southern (18.3%) and North & North-East (14.7%) regions had the highest levels of chronic malnutrition, and the problem of general malnutrition was greater among children living in North & North-East (8.7%), South-West (8.0%) and Southern (7.5%) regions than in other regions of the country. The highest levels of acute malnutrition were found in North & North-East (3.2%) and Central (3.1%) regions of Azerbaijan. Both MICS and RHS surveys revealed, that stunted and underweight children are mostly among those aged 12-23 months. Height-for-age and weight-for-age data for this age group were equal to 30.7% and 28.0% in MICS survey, and to 17.3% and 8.9% in RHS survey.

There are several initiatives being undertaken to improve the health and well-being of infants and young children. Breastfeeding plays a significant role in the healthy development of children. The WHO recommendations state that "infants should be fed exclusively on breast milk from birth to 4 months of age" (RHS, pp 101). According to the SSC, about 30% of all infants are exclusively breast-fed until 3 months (see Figure 2.8). According to MICS, only 9.4% of infants under 4 months of age are exclusively breast-fed. According to RHS, 94.7% of all children born during 1996-2001 were breast fed for at least a short period of time; the average duration of exclusive breast-feeding was 0.4 months, full breast-feeding¹⁹ 3.3 months, and any breast-feeding 11.6 months.

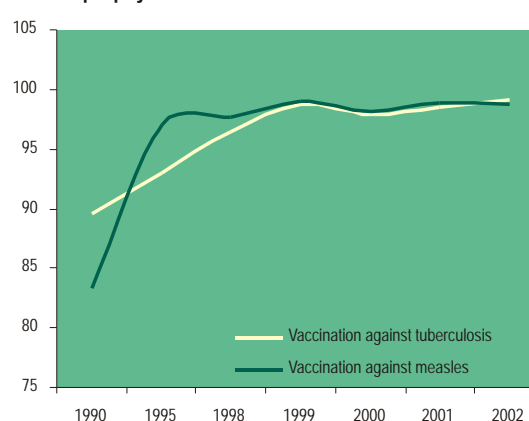
Figure 2.8. Breast-feeding of infants (% of breast-fed infants to total number of children at 1 year)



Source: SSC

Immunization programs are being implemented in the country to help prevent child diseases. The MOH carries out immunization programs with the assistance of World Health Organization (WHO) and UNICEF. Under the National Program "Expanded Program on Immunisation" (EPI), all children are immunized for BCG, DTP, DT, Measles and Polio. In 2002 the proportion of under 1 year children covered with vaccination against TB was 99.1% and against measles 98.8% (Figure 2.9). As a result of implemented measures, our country has succeeded in eliminating a range of childhood diseases. Thus, Azerbaijan received Certificate on Polio-Free Country in Europe in 2002 and further more immunization coverage against measles in Azerbaijan is one of the best in the world.

Figure 2.9. Proportion of under 1 year children covered with prophylactic vaccination



Source: SSC

¹⁷ Both MICS and RHS surveys used NCHS/CDC/WHO (U.S. National Center for Health Statistics Centers for Disease Control and Prevention and WHO) as international reference (WHO, 1995). On the basis of this reference, children were classified as malnourished if they had a score level less than 2 standard deviations below the mean of the reference population (i.e. 2.00 SD) for any indicator.

¹⁸ Serbanescu F. et al. Azerbaijan RHS, 2001.

¹⁹ Children with exclusive (only breast milk) or almost exclusive (breast milk and other liquids excepting formula or other milk) breast-feeding.

Maternal Welfare: maternal mortality, reproductive health, abortion rates, use of contraceptives

According to official statistics, the maternal mortality ratio increased from 9.3 per 100,000 live births in 1990 to 19.9 in 2002 (Figure 2.10). However, the main increases were in the 1990-99 period, when the indicator peaked at 43.4 per 100,000 live births. Since then there has been a steady and notable improvement in the indicator.

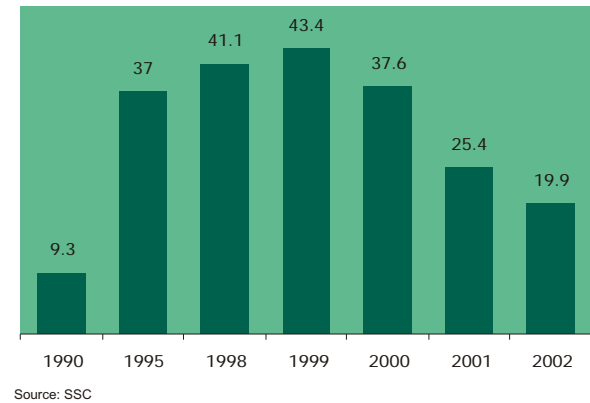
However, as with child and infant mortality, there is some evidence that official figures underestimate the incidence of maternal mortality. Mothers who die from pregnancy and postpartum complications at home (after home deliveries or after being discharged from hospital) are not usually recorded as maternal mortality. According to the results of UNICEF's MICS survey, the maternal death rate was 79 persons per 100,000 births in 1988.

The official estimates of maternal mortality rates in Azerbaijan are close to those reported for high income countries (12 per 100,000 live births²⁰), and survey data suggests that the estimates based on administrative data may lead to an underestimation of the indicator. (The average maternal mortality rate is equal to 118 per 100,000 live births in middle income countries and 463 in developing countries²¹).

Women sometimes deliver their children in younger ages, which increases health risks for themselves and their children. According to Social Monitor 2003, the share of births to mothers under age 20 increased from 4.7% of total live births in 1990 to 9.7 in 2001²². According to WB estimates, births per 1,000 women ages 15-19 in Azerbaijan was 44 in 2002²³ (there are no regular official statistics on teenage births). The figure was 104 in low income and 24 in high income countries.

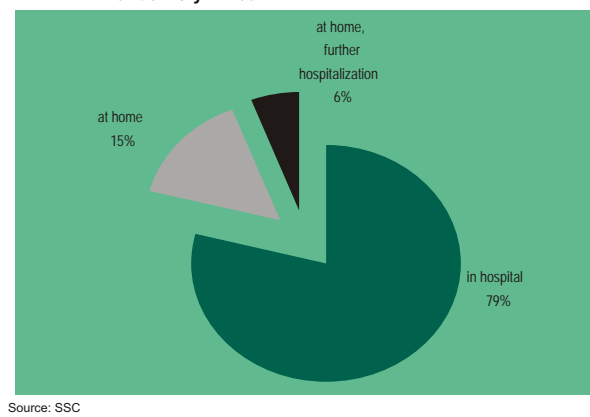
One of the factors affecting maternal health is

Figure 2.10. Maternal mortality (deaths of pregnant women during pregnancy, childbirth and puerperium), per 100,000 live births



increase in the number of childbirths not assisted by skilled health personnel. According to the results of a survey carried out by SSC in 2001, only 79% of women complete pregnancy with delivery in hospital. According to RHS, the proportion of births with skilled attendants present at delivery was 89% in 1996-2001 period. According to the results of UNICEF's MICS survey (2000) calculations, the share of women reporting skilled attendant at delivery (i.e. attendance by a doctor, a nurse, or a midwife) was 87.5% in the year before the survey²⁴. This figure was 75% among poor households²⁵. The percentage of women receiving prenatal care services from skilled health personnel was 69% (52% among poor people).

Figure 2.11. Proportion of mothers completing pregnancy with delivery in 2001:



²⁰ Source: Human Development Report 2003. UNDP, N. Y., 2003.

²¹ Source: Human Development Report 2003. UNDP, N. Y., 2003.

²² UNICEF (2003), "Social Monitor 2003", UNICEF Innocenti Research Centre: Florence.

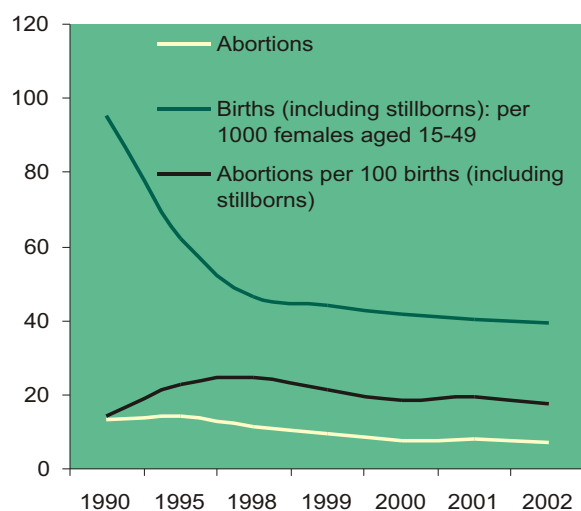
²³ Source: World Development Indicators 2003, The WB, 1818 H Street N. W., Washington D. C., 20433 USA.

²⁴ In fact comparative figures suggest that the figures for childbirths attended by skilled personnel in Azerbaijan are not below the world average. According to the WB estimates (source: World Development Indicators 2003), the share of births attended by skilled persons in 2000 was 99% in Russia, 92% in Algeria, 81% in Turkey, 71% in Paraguay and 20% in Pakistan. The WHO estimates that births attended by skilled health personnel was 99 in high-, 84 in middle- and 40 in low income countries in 1995-2001 period (source: Human Development Report 2003. UNDP, N. Y., 2003). However, efforts are being continued to improve the figures in Azerbaijan as part of the policy objective of improving maternal and child welfare.

²⁵ Source: Azerbaijan MICS, 2000. SSC, UNICEF, 2000.

There has been a reduction in abortions compared to 1990, mostly due to the fact that government with the assistance of international organizations has extended family planning services to the population, but abortion is still a common method of interruption of unwanted pregnancy. According to official data, abortions per 1,000 females aged 15-49 years has decreased from 13.3 in 1990 to 7 in 2002 (Figure 2.12). In comparison to this, abortions per 100 births has increased from 14.0 to 17.6 in the same reference period. This is due to the fact that there has been a steep decrease in the birth rate, but not in the abortion rate. The “lifetime” abortion rate (i.e. the average number of abortions per woman in the fertile age group) also tended to decrease according to official statistics. Statistics of the Union of Soviet Socialist Republics (USSR) showed a pre-independence lifetime abortion rate of 0.8 abortions per woman aged 15-49 in Azerbaijan, the lowest level among former Soviet Union countries (Brackett, 1993)²⁶. The MOH gives an estimate of 0.3 lifetime abortions per woman for the 1998-2000 periods²⁷.

Figure 2.12
Abortions and births



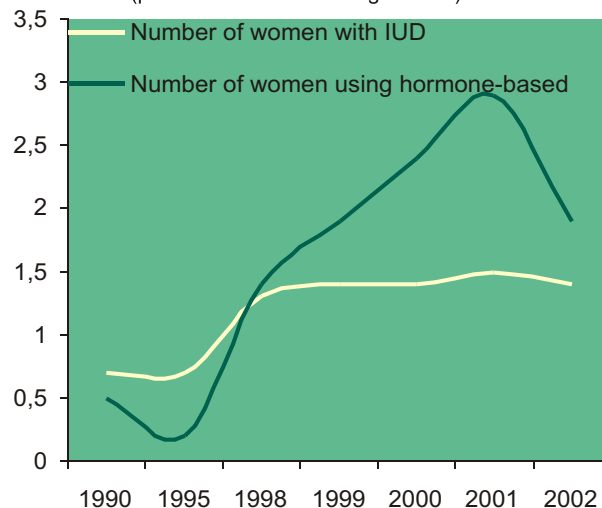
Source: SSC

Again, survey data produces different estimates from those produced on the basis of administrative data. The RHS results suggest that the general abortion rate (the number of induced abortions per 1,000 women in a certain year) in the 3 years before the survey (May 1998 April 2001) was 116 abortions per 1,000

women aged 15-44. The lifetime abortion rate was also higher: 3.2 abortions per woman in 2001, in comparison with 0.3 abortions per woman (official data). Abortions are prevalent particularly among women in the 25-34 age group (55% of all abortions). The difference between the official abortion rate and the survey result can be explained partly by the difference in data collection (the survey data are based on information per 1,000 women aged 15-44, whereas the official data per 1,000 women aged 15-49²⁸); but also by data registration problems in state health care facilities; underreporting of abortions performed in the private sector; and abortions performed outside clinics.

The reduction in abortion rate is mirrored by an increase in the use of contraceptives over the same period. Figure 2.13 shows that the use of contraceptive agents per 100 women aged 15-49 has increased significantly in the post-Soviet period, contributing to a reduction in the risk of morbidity of people with venereal diseases and HIV/AIDS. Figure 2.14 shows the proportion of respondents using contraceptives disaggregated by age group. The survey carried out by SSC in 2001 shows that the proportion of contraceptive users is low among youth and adults in comparison with the respondents aged 25-39.

Figure 2.13
The use of contraceptive agents (per 100 women of the age 15-49)



Source: SSC

To protect the poor from the economically negative results of large families and the costs and suffering of abortions, modern methods of contraception

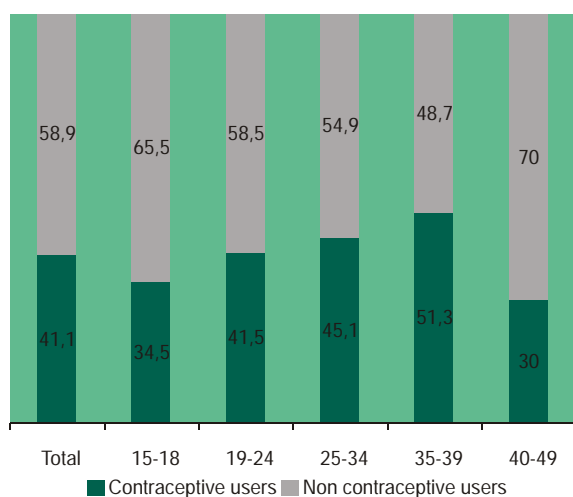
²⁶ Source: Serbanescu F. et al. Azerbaijan RHS, 2001.

²⁷ Source: Serbanescu F. et al. Azerbaijan RHS, 2001.

²⁸ The lower estimates may be due to the fact that the upper limit of the age group is higher than that in the survey, and that fertility rates decrease with age

should be made available to them. The RHS also notes the increase in contraceptive use, which has accompanied the decrease in abortions. Before 1990, USSR health statistics reported that the lowest use of contraception (7%) among the former Soviet Union countries was in Azerbaijan (1993)²⁹. The results of the RHS suggest that the current contraceptive prevalence among currently married women of reproductive age (15-44 years) is 55.4%. Only 11.9% of women in this category use modern methods, the rest 43.5% traditional methods. According to MICS, 55.1% of all women of reproductive age (15-49 years) are using any contraception (15.8% modern methods, 39.3% - traditional methods).

Figure 2.14
Proportion mothers using contraceptive (by age groups)
 (per cent) (2001)



Source: SSC, Based on a survey of mothers during last pregnancy at maternity units

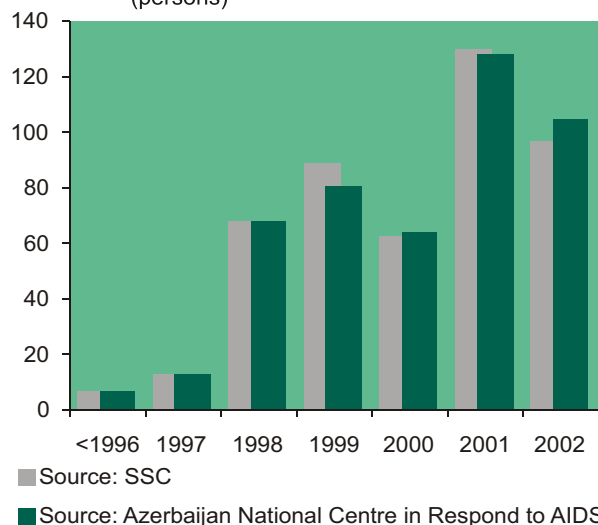
Maternal health depends not only on the quality of maternal health services, but also on access to these services. Official figures show that the number of female consultation units, child polyclinics and ambulatories decreased from 1034 in 1990 to 879 in 1999 but increased again to 917 in 2002. The number of beds for women who are just recovering from deliveries and childbirth did not fluctuate significantly (between 7,300 and 7,600) in the post-Soviet period and in 2002 the number was the same as in 1990 - 7,400.

Disease Incidence: HIV/AIDS, Malaria, and Tuberculosis (TB)

The spread of HIV/AIDS poses a serious risk to

the population's health. The official statistical data show that the prevalence of HIV/AIDS has increased during the past period, but is still relatively low. According to the SSC the number of registered AIDS infected persons and HIV infectors was 97 in 2002 (Figure 2.15). There is some discrepancy between the data given by SSC and the Azerbaijan National Centre in Respond to AIDS. According to the latter, the number of HIV detected people was 105 in 2002 and the total number of HIV infected people 556 by July 1, 2003³⁰. However, the actual number of HIV carriers could be significantly higher than registered, because the awareness of people about HIV/AIDS is low, and only a very small part of population take HIV tests (although efforts are being made to increase the amount of testing carried out; see below). In most cases infected people do not take the test for HIV/AIDS and remain unaware of their infection. For example, according to Azerbaijan National Centre in Respond to AIDS, only 164170 HIV tests were carried out in 2002, and more than 3,600,000 in the period of 1987 - 2002. The low level of use of contraceptives and the low awareness of people of HIV/AIDS means that there is a relatively high risk of being infected. The National AIDS Centre carried out a survey of HIV-infected citizens. The results suggest that about 90% of the respondents had no idea about AIDS before being infected with HIV. According to the RHS, 74% of women in fertile age have heard of HIV/AIDS, but 72% of women could not spontaneously state any main way of avoiding HIV infection. Lack of any preventive knowledge is higher among rural residents (84%), women

Figure 2.15
Dynamics of HIV detection
 (persons)



²⁹ Source: AZRHS, 2001.

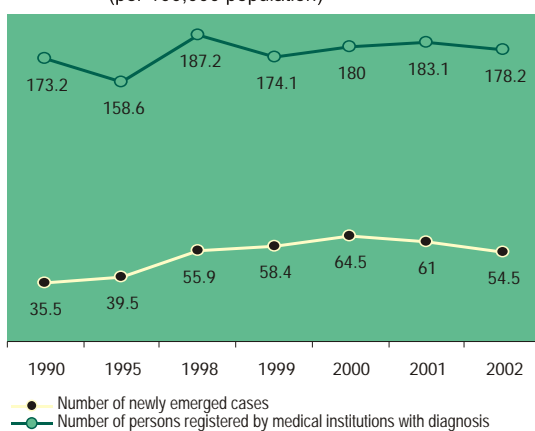
³⁰ 534 of the registered cases are citizens of Azerbaijan; 22 are foreigners.

younger than age 20 (83%), never married and sexually inexperienced women (78%), respondents with less than complete high school education (84%), women of low socioeconomic status (82%) and non-IDP women living in IDP settlements (83%).

The HIV surveillance system was introduced in Azerbaijan in 1987, and the Azerbaijan National Center in Respond to AIDS was established in 1990 as the only MOH institution responsible for the coordination and supervision of activities for the prevention of HIV in the Republic. The Center has 12 regional offices. The Center guarantees quality, confidentiality of consultations and tests as well as keeps received results strongly confidential. There are services of 24 hours anonymous consultation and testing on AIDS and telephone of trust functional at the Center since May, 1997. Besides the National AIDS Center, there is one NGO, "Imdad-SOS", which was set up in 1998, to provide moral, material, social and psychological help to people with HIV/AIDS. It deals with more than 200 HIV/AIDS patients, their close relatives as well as lawyers, psychologists, sociologists, teachers and physicians.

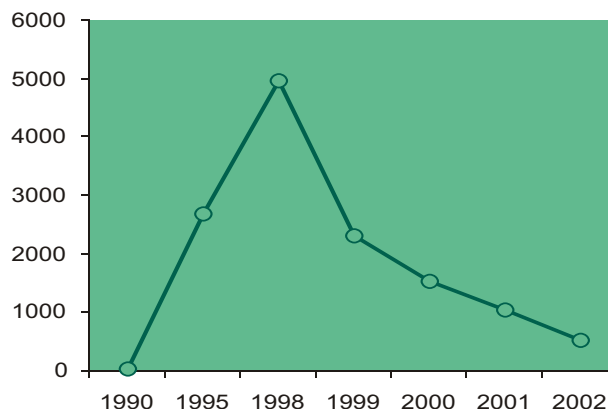
Malaria and TB incidences have also increased in comparison with 1990, partly due to the drop in living standards experienced by large sections of the population in the early transition period, and the drop in the quality of basic health services. In 2002 the number of new TB cases was 54.5 per 100,000 population. This is 1.5 times higher than the level of 1990. Malaria

Figure 2.16
Tuberculosis incidences
(per 100,000 population)



Source: SSC

Figure 2.17
Malaria incidences
(persons)



Source: SSC

incidence was 505 persons in 2002 in comparison to 24 in 1990, however, there has been a decrease in the latest period.

Country Specific MDGs

There are three MDGs, which relate to health issues and health indicators, namely: goal 4 (reducing child mortality), goal 5 (improving maternal health), and goal 6 (combating HIV/AIDS, malaria and other diseases).

- Goal 4: Reduce Child Mortality
 Target 5: Reduce by two-thirds between 1990 and 2015, the under-five mortality rate
 Indicator 13: Under-five mortality rate
 Indicator 14: Infant mortality rate
 Indicator 15: Proportion of 1 year old children immunized against measles

Under 5 mortality rate:

Given the measures being introduced under SPPRED, it is hoped that child and infant health indicators will continue to improve over the coming years. Reducing under 5 mortality rates by two thirds by 2015 would imply a target of 14 per 1000. Given that the SPPRED measures will take some time to have effect, it might be possible to aim for a modest decrease to be achieved in the 2002-2005 period (for example, a target of 21 by 2006), and to reach 14 by 2015. (Current rates for Eastern Europe are 20 for males and 16 for females³¹).

Since under 1 mortality accounts for 80% of all child mortality, it is considered useful also to have a country target for infant mortality. Reducing infant

³¹ Source: UNFPA, State of world population 2003. Making 1 billion count: investing in adolescents' health and rights.

mortality by two thirds would imply decreasing from 23 to a target of 8 per 1,000 live births. This is lower than the current average for Eastern Europe (14) and for Western Europe (13)³². As with under five mortality, it would be more appropriate to aim for the current rates in Eastern Europe, and the target could therefore be set at 20 for 2006 and 14 for 2015.

However, given the current discrepancies between official data and survey data, and the ongoing efforts being made to improve the quality of the official data, it may be necessary to review any targets as changes in data collection and official estimates become available.

It is also considered advisable to set targets based on survey data, since this data will continue to provide a useful alternative source of estimates for infant and child mortality. The next MICS survey is scheduled to be carried out in 2004. A possible target could be to reduce the under five mortality rate from 102 per 1,000 to 95 by 2006, and to 50 by 2015. Infant mortality could be reduced from 79 to 74 by 2006 and to 40 by 2015 (80% of 50).

However, discussion on setting concrete targets is still taking place, and country-specific MDG targets will be set in the context of SPPRED and will be in line with targets and indicators used for SPPRED implementation.

- Goal 5: Improve Maternal Health
- Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
- Indicator 16: Maternal mortality ratio
- Indicator 17: Proportion of births attended by skilled health personnel

Country Specific MDG Targets

Maternal mortality rates: SPPRED aims to improve maternal health through improvements in the quality of maternal health services and improving access to these services. As with infant and under 5 mortality rates, it is considered advisable to use two targets, one based on official data, and one based on survey data. (It is assumed that efforts to improve data collection for official data will be continued, and that surveys will be repeated.)

Target based on official data: 1990 is not a good base line, because it is much lower than the following years, and does not reflect the problems which the country is struggling to cope with in transition. Therefore it is suggested to take 1995 as the base year for official data. A reduction by three quarters in the maternal mortality rate would imply a reduction from 37 to circa 13 for 2015. The target for 2006 could be 35, since it will take some time for the improvements in maternal health services to have effect.

Target based on survey data: If we take 79 deaths per 100,000 live births as the proxy baseline for 1990 (the data refers to 1988), a reduction by three quarters implies a target of 27 for 2015. (Maternal mortality rates range very widely within Eastern and Western Europe and it is difficult to give one figure as a reference point (from 4 to 58)³³. However a tentative target for 2006 could be 74 (94% of 79).

- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
- Indicator 18: HIV prevalence among 15-24 year old pregnant women
- Indicator 19: Contraceptive prevalence rate
- Indicator 20: Number of children orphaned by HIV/AIDS

- Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases
- Indicator 21: Prevalence and death rates associated with malaria
- Indicator 22: Proportion of population in malaria risk areas using effective malaria prevention and treatment measures
- Indicator 23: Prevalence and death rates associated with tuberculosis
- Indicator 24: Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)

Discussion of country-specific targets for the above so far have been inconclusive. Targets and indicators for HIV/AIDS are particularly problematic, due to the low number of tests currently carried out in the country.

³² Source: UNFPA, State of world population 2003.

³³ Source: UNFPA, State of world population 2003.

2.6 Poverty Reduction, Economic Growth and Environmental Sustainability

Background

Ensuring environmental sustainability is an important goal in itself, but it is also linked to other poverty goals, such as improving the health status of the population, since land, air and water pollution have negative effects on the population's health. It is now also generally accepted that economic growth has to be environmentally sustainable: only wise and prudent use of natural resources will ensure that future generations can continue to enjoy economic growth and development.

Azerbaijan inherited serious ecological problems from the Soviet era. Industrial development was achieved at the expense of the damaging effects of pollution on people's health and on the natural environment. Some aspects of this pollution had a direct impact on the lives of the people, while others have had a long-term negative direct or indirect impact through the pollution of land, air and water.

There are many links between the natural environment and the living standards of the people. We have already pointed out that a polluted environment affects the health of the population, but low living standards can also in

some circumstances lead to a worsening of ecological problems, eg the over-logging of forests for cheap firewood; while land pollution can reduce the access of the poor in rural areas to land for cultivation.

The main environmental problems currently facing Azerbaijan can be summarized as follows:

- Ecological problems/ pollution arising from the previous Soviet industrial and agricultural policies
- De-forestation which has accelerated in some areas in recent years due to the lack of reliable energy supplies (gas and electricity) to regions for heating
- Lack of piped water in rural areas, and the quality of piped water in urban areas
- Pollution of the Caspian Sea

Land

The territory of Azerbaijan covers an area of 86.6 thsd m². The natural geographic territory of the republic is characterized by a predominantly moderate climatic zone and semi-desert plants covering 54.8% (2001) of the total area of the republic consists of arable land. The average population density is 94.7 persons per km². The arable land per capita is 0.59 hectares.

Table 2.11. Distribution of land (percent of total)

Total Land Fund	1990	1995	1998	1999	2000	2001	2002
Arable land	50.7	51.9	54.2	54.3	54.9	54.9	54.9
Including:	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tilled soil	38.1	38.5	38.7	38.9	38.5	38.7	38.7
Land under permanent crops	7.9	6.9	5.3	5.0	5.0	4.8	4.8
Pastures	54.0	54.7	56.0	56.1	56.5	56.5	56.5
Non-arable land	49.3	48.1	45.8	45.7	45.1	45.1	45.1
Including:	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry, roads etc.	7.8	7.1	8.6	7.9	10.1	9.5	9.4
Special protected areas	2.8	3.5	4.8	4.9	4.9	5.0	5.6
Forests	24.4	24.8	26.2	26.3	26.6	26.6	26.6
Lands under water	3.1	3.4	3.1	3.8	3.9	3.7	3.7
Other	61.9	61.3	57.3	57.1	54.5	55.2	54.7

Source: SSC, 2002

The land has suffered negative effects as a result of industrial activity, natural disasters, land erosion and salinity. Areas used for industrial and agricultural purposes have been

most affected. Erosion, salinity and pollution of land mean that local populations have more restricted access to land and are thus more vulnerable to poverty.

A total of 3.7 million ha of land is affected by erosion, and of these 3 million ha is affected by water erosion. The latest figures suggest that 1.2 million ha of land is affected by salinity. The main reasons behind salinity are irrational methods of irrigation and damaged infrastructure.

The total area of land affected by pollution is

estimated at 30,000 ha of which 14,000 ha is polluted by oil and chemical agents. By polluted land we understand land that is polluted by man-made sources: transport, industry, over-use of pesticides etc. In general, the proportion of heavy metals in polluted land is several times higher than that in non-polluted land. Thus lead content is 8 times, nickel content is 2 times, zinc is 50-60 times and copper is 10 times higher in polluted lands.

Table 2.12. Land affected by harmful exogeneous factors

Process	Area (km ²)	Region
Landslide	80,000	Shamakhy-Ismayilly, Qakh-Shaki, Lankaran, Ganja, Gazakh, Absheron
Floods	70,000	Lankaran, Nabran, Kur-Araz
Salinity	65,000	Absheron-Gobustan, Kur-Araz
Bog-land	150,000	Absheron, Lankaran, Kur-Araz

Source: National Program on Environmentally Sustainable Social - Economical Development, 2002

SPPRED envisages several measures to tackle land pollution, namely land recultivation on the Apsheron peninsula, de-contamination of land from mercury and other harmful substances and preparation of the waste management project.

Air pollution

Noticeable changes have taken place in both the scope and origin of the harmful emissions in the republic over the last years. If under the Soviet Union the harmful emissions were mainly of chemical and petrochemical origin, these have decreased in the transition period.

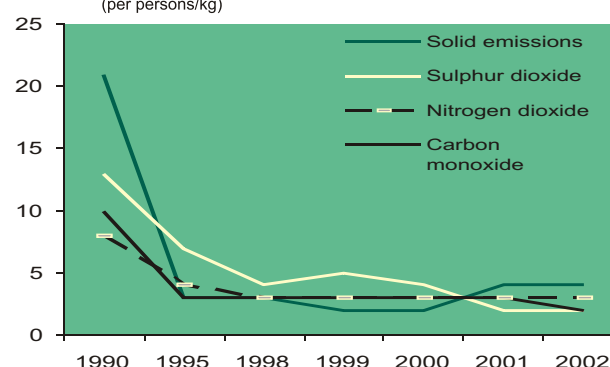
Table 2.13. Emissions of Harmful substances from stationary sources (thousand tons)

City	1990	1995	1998	1999	2000	2001	2002
Baku	1393.9	623.9	358.6	326.6	333.8	335.4	110.3
Sumgait	96.5	40.2	15.8	40.3	17.6	22.3	13.0
Ganja	56	4.8	0.8	1.6	5.7	3.0	2.2
Mingachevir	42.9	26.7	26.4	26.4	28.6	13.8	12.0
Ali Bayramly	67.3	27.8	22.7	31.7	28.6	27.6	20.5

Source: SSC, 2002

As table 2.13 shows, the emissions of harmful substances from industrial enterprises, which represent the main source of air pollution, has been decreasing in all the large industrial cities apart from Baku. However, it should be noted that economic recovery is now underway, and it will be important to monitor pollution levels over the coming years.

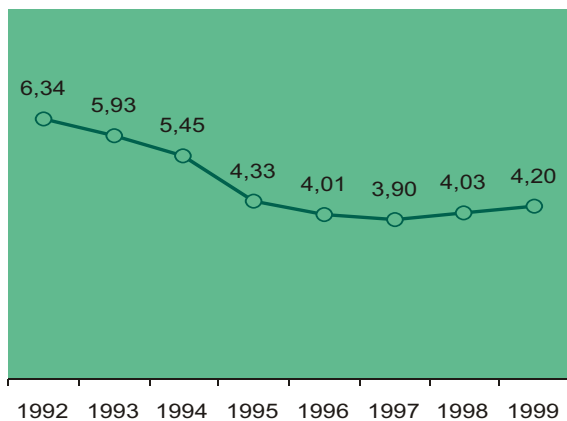
Figure 2.18
Air pollution from stationary sources
(per persons/kg)



Source: SSC

The main reasons for air pollution in these cities are the wear and tear of equipment and outdated technology, which have not been renewed for the last 40 years. At the same time there has been a rapid decrease in the use of natural gas as a fuel for the thermal power stations, and the use of highly sulphurous mazut, regular non-fulfilment of planned and necessary protective measures and lack of sufficient investment for environmental protection.

Figure 2.19
Carbon Dioxide emissions per capita
(metric tons)



Source: SSC

The 28th indicator of MDGs envisages monitoring the level of carbon dioxide per capita. Starting from 1992, with the financial support from the UNDP, the National Center for Climate Changes monitored this indicator. There is no available information from 1999 onwards as the above-mentioned project has finished. Currently SSC does not collect information on this topic.

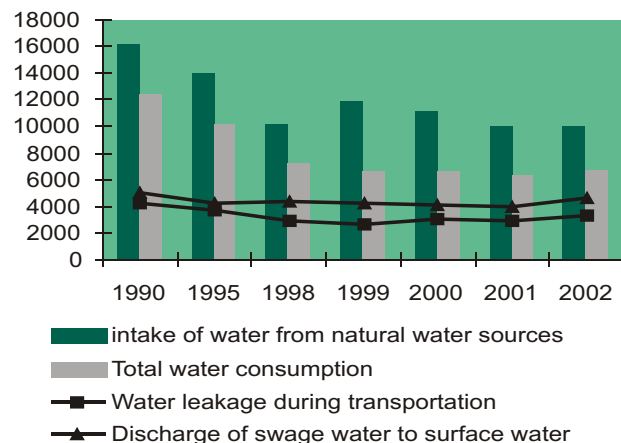
Water pollution

There is a shortage of drinking water in Azerbaijan. Overall water resources in the country are estimated at 29.7 bn. m³. The water sources of the country are not sufficient to guarantee supply at the required level. On top of this there is inefficient use of the available water resources and this is made worse due to the losses which occur in the water supply systems.

The irrigation system comprises of 10 main

canals and 2 water escape collectors. In the Republic, 4.1% of all permanently active canals (38,900 km in length) have artificial coatings, and 95.9% have ground canal beds; this results in the loss of 2.5 - 3.0 billion m³ of water. This also causes the rise of ground water level, as well as secondary salinity and the flooding associated with it. Inefficient irrigation and drainage channels lose up to 50% of the water which they carry. At the same time half of the water supplied for the Absheron peninsula is lost. This figure in the republic amounts to about 30% of all water supplies for the year 2002.

Figure 2.20
Water availability and water losses



Source: SSC

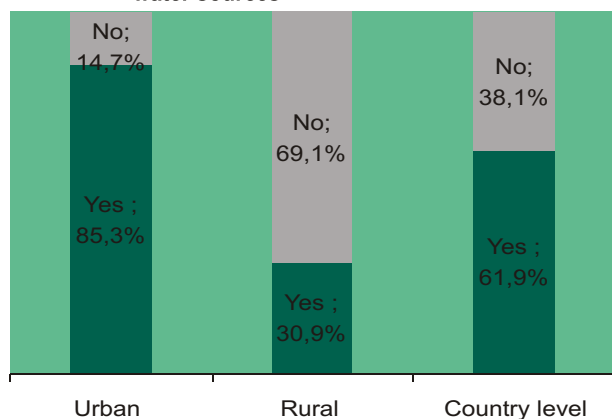
The amount of national water resources, estimated on a per capita basis of per unit of the land area, is smaller in Azerbaijan than in neighboring countries.

Estimations show that according to the amount of water resources per 1 km³ of land area and per capita, the worst situation is in the Mughan-Salyan zone (3 and 7), Absheron Peninsula (15 and 0.04), Araz lowland (19 and 0.04), Mill-Garabagh region (39 and 0.5), Gazakh region (74 and 1.3) and Nakhchivan (17 and 1.6).

Serious problems also remain in the supply of drinking water to households. Generally, the poor condition of infrastructure restricts the possibilities for the population especially in the rural settlements to get access to piped water.

³⁴ Improved water sources include: household connection, public standpipe, borehole, protected dug well, protected spring, rainwater collection. Availability of at least 20 liters of water per person per day from a source within one kilometer of the user's dwelling. Not improved sources include: unprotected well, unprotected spring, vendor-provided water, bottled water, tanker truck-provided water.

Figure 2.21 Access of population to the improved water sources³⁴



Source: HBS, 2002, SSC

According to the results of the 2002 HBS, 62.0% of the population has access to the improved water sources using various sources.

According to another survey carried out by the SSC³⁵, 84% of the houses in the cities and only 11.2% of the houses in the villages were provided with the piped water. The administrative data shows that access of population to the improved water sources was 94.2% in urban areas, 11.2% in rural areas. According to UNICEF's MICS (carried out in 2000), 76.3% of the population has access to piped water.

SPPRED is addressing the problem by tackling the rehabilitation of the internal water

Table 2.14. Quality of drinking water

	<i>Sub- standard</i>
Sanitary-chemical status:	
Centralized water supply	15.2
Communal water pipeline	14.5
Centralized water supply reserves	9.8
Microbiological status:	
Centralized water supply	9.1
Communal water pipeline	30.5
Centralized water supply reserves	14.2

Source: Ministry of Health, 2002

distribution network in a number of cities of the republic Ganja, Shaki and etc. with support of donor organizations.

However, the problem in Azerbaijan is not just that of guaranteeing the supply of piped water, it is improving the quality of the water.

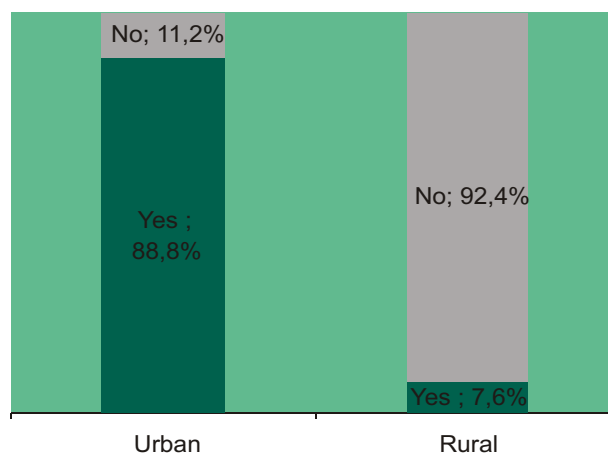
A study carried out in 2002 by the Sanitary-Epidemiological Center under MOH shows that there are still some water resources which exceed the norms for bacterial, chemical and radioactive content.

As it can be seen from the Figure 2.20, the amount of waste water in ground water over the last 10 years decreased from 5,098 mln m³, to 4,114 mln m³.

Forestry

Due to the fact that Azerbaijan has semi-desert type of plants and limited water sources, a relatively small area is covered by forest. The forest area has been reduced over the last years. According to official statistics, only 11% of the territory of Azerbaijan is covered by the forest. However, it can be assumed that there have been significant changes as a result of uncontrolled use of the forest resources by the population facing with shortage of energy. Unreliable gas supplies in certain territories of the republic have forced

Figure 2.22 Access of population to gas supplies



Source: HBS, 2002, SSC

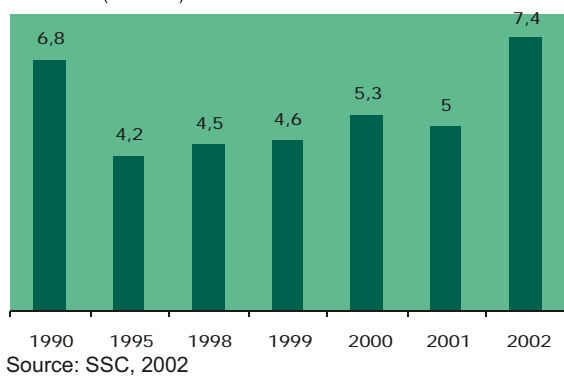
³⁵ The survey was implemented within the framework of the EU Food Security Program (EU FSP)

people to look for alternative types of fuel.

Obtaining the wood in an unregulated way as alternative energy source has caused serious damage to the forest covering. Figure 2.22 shows that 92.4% of rural population does not have access to the piped gas supply. Totally, 46% of the population in the republic does not have sustainable gas supply.

SPPRED envisages measures to create new forestry areas along the Kur-Araz River and to

Figure 2.23
Re-forestation
(Thsd. Ha)



extend existing forest covering.

As it can be seen from Figure 2.23, the forest rehabilitation work has been implemented on 8 thousands ha of area during the year 2002. However, estimates suggest that large-scale work will lead to an optimum forest covering in the republic (18-20%) in 2025-2030. "The National Program on Forest Rehabilitation and Extension" was adopted in 2002 on the initiative of the Ministry of Ecology and Natural Resources (MENR) of the Republic of

Table 2.15. The scope of work envisaged under the National Program

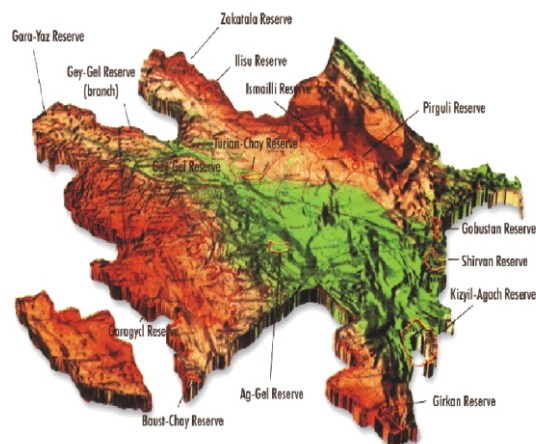
	Total (ha)
I. Reforestation through promoting natural regeneration	25,000
II. Planting and sowing	44,700
Using the state forest fund lands	30,400
Using the other land	14,300
Including:	
Along the Caspian Sea	4,500
Along the roads	3,700
Along the railways	300
Valleys of Kur-Araz rivers	5,800
Total	69,700

Source: Ministry on Ecology and Natural Resources, 2003

Azerbaijan. The program is designed to achieve forest rehabilitation in the regions.

Protected Areas³⁶ and Reserves³⁷

At present there are 20 protected areas in Azerbaijan with a total area of more than 260,000 hectares, the first of which was established in 1923



(the Kara-Yaz-Agstafa), the last in 1993 (Gabala). Protected areas considerably supplement the reserve system providing the preservation of flora and fauna resources of the country and the biodiversity of natural communities.

At present, 14 state reserves with a total area of 192.2 thousand hectares or 2.2% of the total area of the Republic are functioning in Azerbaijan, which cover all the basic natural climatic landscapes and contribute to the preservation of the biodiversity of the Caucasus. It should be noted that the functioning of the reserves is made difficult by a number of problems, first of all those connected with the economic situation.

For its geographical location Azerbaijan has various climatic zones with rich biodiversity. Poverty has contributed to the depletion of biodiversity. Unplanned and unregulated hunting and fishery, cutting of the rare types of the trees, collection of the traditional types of plants are the sources of income for poor families in many cases and these activities have a very serious negative impact on biodiversity.

SPPRED envisages measures to create new

³⁶ Protected Area is a temporarily protected natural territory or water area, in which certain species of animals and plants, geological objects, elements of landscape, etc. are preserved.

³⁷ A reserve is a protected natural territory or water area in which the whole natural complex i.e. landscapes which are typical or rare for the given zone, rare and valuable species of animals and plants, etc. are preserved in natural conditions. The main task of a reserve is the preservation and restoration of model natural ecosystems as well as a gene pool of organisms typical for the given zone.

protected areas (Shahdagh National Park) and reserves (in Ordubad, Shahbuz, Talish and other regions).

Caspian Sea

The Caspian Sea has a great significance for the country. Being a landlocked reservoir, the ecosystem of the Caspian Sea has a great impact on forming the ecosystems of the surrounding territories.

The pollution problems of the Caspian Sea can

Table 2.16. Pollution and Discharge via Rivers

Country	Rivers	BOD ³⁸ tons/year	Nitrogen tons/year	Phosphorus tons/year	Oil tons/year
Azerbaijan	Kur	26,300	17,000	800	500
	Others	9,700	2,000	200	100
Iran	All	49,500	12,000	1,200	400
Kazakhstan	Ural	12,200	6,000	600	900
	Others	1,000	0	0	0
Russia	Volga	786,000	759,000	82,500	71,600
	Others	21,900	46,000	5,000	1,500
Total		906,600	842,000	90,300	75,000

Source: United Nations Environment Programme (UNEP), 2002

- Offshore oil industry

be divided into following types:

- Chemical pollution brought by the rivers flowing into the Caspian

Industrial discharges to waters were summarized by the Pollution Control, with additional input from Iranian specialists. Sewage and river discharges were estimated based on questionnaires. There are, however, considerable uncertainties in these values. For instance, it is often said that 80% (or 85%) of the hydrocarbons (or total pollution) entering the Caspian Sea comes from the Volga River.

The Caspian Regional Thematic Center for Pollution Control in Baku conducted studies of the pollution loads of the major industries and activities in the region. The results have been

Table 2.17. Estimated Pollution Discharges into the Caspian Sea from Industries

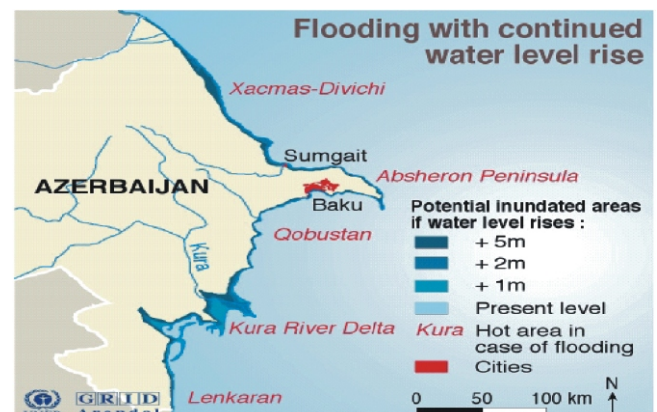
Country	BOD tons/year	Nitrogen tons/year	Phosphorus tons/year	Oil tons/year
Azerbaijan	7,100	1,100	330	14,000
Iran	28,800	600	210	12,500
Kazakhstan	2,900	7,100	100	1,800
Russia	4,900	300	100	8,900
Turkmenistan	1,500	100	3,970	5,400
Total	45,200	9,200	4,710	42,600

Source: UNEP, 2002

supported by further rapid assessment methods in all five Caspian littoral states.

- Water level rising in the rivers

The most probable reason for the decrease in the Caspian sea-level is considered to be the change of the fresh water flow into the Caspian, of which about 75% (80.3% of the river flow) is from the Volga River. As, in the beginning of the current century, the construction of flow regulating dams was started (8-on the Volga river, 3-on the Ama river, 1-on the Ural river, 3-on the Kur river) and the "irreversible" losses of water for agricultural and industrial purposes



Source: Transboundary Diagnostic Analysis for the Caspian Sea, The Caspian Environment Programme, 2002.

³⁸ Biological Oxygen Demand

increased (from 1950 to 1992 water consumption made up about 900 km²), all these were regarded as the reasons for the sea-level decline.

The pollution problems of the Caspian are being tackled through the Caspian Environment Programme (CEP). This is a regional programme developed for and by the five Caspian Littoral States, Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan, aiming to halt the deterioration of environmental conditions of the Caspian Sea and to promote sustainable development in the area. A major outcome of the CEP will be the action plan to be a

adopted by the five states bordering the Sea. The plan will be developed through the agreed technical analysis (Transboundary Diagnostic Analysis -TDA) which will lead to the Strategic Action Plan (SAP). Contributions to the SAP by each state will be defined in the National Plans.

The specific goal of the present National Caspian Action Plan is to improve the ecological status in Azerbaijani part of the Caspian Sea and adjacent littoral territories, to reduce its negative impact on the health of the population, to maintain the life support functions of hydrosphere and biosphere and effective participation of Azerbaijan in the regional and international nature-conservative activity.

Table 2.18. Sources of the Caspian Sea pollution (all countries)

Sources	BOD tons/year	Nitrogen tons/year	Phosphorus tons/year	Oil tons/year
Rivers	907,000	842,000	90,000	75,000
Municipalities	124,000	35,000	9,000	21,000
Industries	45,000	9,000	5,000	43,000
Total	1,076,000	886,000	104,000	139,000

Source: UNEP, 2002

Environmental Sustainability and the MDGs

Goal 7: Ensure Environmental Sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Indicators: Proportion of land area covered by forest
Ratio of area protected to maintain biological diversity to surface area
Energy use per unit of GDP

Carbon dioxide emissions (per capita) and consumption of ozone-depleting chlorofluorocarbons.

One of the problems in Azerbaijan is the weak institutional capacity for monitoring environmental problems, and therefore for

formulating and implementing policies aimed at promoting environmental sustainability. There is a need for cross-sectoral dialogue in designing environmental policies, and in developing an effective regulatory framework.

Attempts are being made to protect the land area covered by forest, and to maintain biological diversity. However, the regulatory systems will have to be improved and local communities involved. Illegal logging has to be stopped, but accompanied by measures to ensure access to alternative fuel for local communities.

The indicator of land acreage covered by forest may not be appropriate for Azerbaijan, since it does not capture problems with decline in forest quality, including reduced yields and reduced species mix. For Azerbaijan, it may be appropriate to use an indicator concerning land salinity.

Azerbaijan inherited the Soviet system of inefficient use of energy. Energy subsidies to some extent still encourage inefficiencies in use of energy by not penalizing wasteful use. On the

other hand, households in rural areas have inadequate access to electricity³⁹. Carbon dioxide emissions⁴⁰ are declining. The carbon indicator is linked to policies to reduce greenhouse gases, and reductions will lead to lower incidence of respiratory and cardiovascular illnesses.

Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water.
Indicator: Proportion of population with sustainable access to an improved water source, urban and rural

Circa 84% of the urban population has access to piped drinking water, and 11% of the rural population. This huge difference in access between urban and rural areas has to be addressed. However, the problem in Azerbaijan is not so much access to improved water sources, although there may be some work to be done on this in rural areas. The problem is more ensuring the quality of the water. Drinking water should meet basic biological and chemical standards. The Ministry of Health monitors the quality of drinking water, but lacks modern equipment to carry out reliable monitoring. Infrastructure needs repair and investment.

Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers
Indicator: Proportion of population with access to improved sanitation
Proportion of households with access to secure tenure

With regard to improved sanitation, the problem is not so much access, but the state of repair of the current sewage systems. Setting a target for Azerbaijan based on access alone is inappropriate. Sewage water can leak and pollute water resources.

The definition of slum is not clear, and the extent of the problem in Azerbaijan is therefore difficult to define. However, it may be worth considering setting a shorter term target for improving the housing conditions of those

sections of the IDP population which are still living in unsanitary conditions.

2.7 Refugees and IDPs

Introduction

As it was stated in the SPPRED, currently there are circa 1 mln. refugees and IDPs in the country, which makes up approximately 12% of the country's overall population. 15 years passed since the IDP problem emerged; children have been born, have grown up in difficult situations, new families formed. IDPs on the whole still live in concentrated groups, whereas refugees are more dispersed, and have been integrated into the local population. The IDP population has concentrated in areas near to the occupied territories and about one third are living in Baku. Many IDPs are still living in special camps or in temporary accommodation such as hostels or unfinished buildings in Baku and other big cities.

The political situation surrounding the problems of IDP's and refugees has not been yet resolved. The main SPPRED objective of "returning the IDPs to their permanent place of residence" could not therefore be achieved. In the meantime, in order to improve the living conditions of this group, the government, in partnership with donor organizations, is accommodating some of the families in newly constructed camps and providing them with plots of land. The state is continuing to resettle IDP households, especially those who are living in the most appalling conditions. New houses for IDP families are being made available in Shamkir, Aghstafa, Yevlakh and other regions within the framework of SPPRED. Some are provided with plots of land, and repairs are being carried out in some of the living places where the IDPs accommodated.

Nevertheless, according to official statistics, the majority of the IDPs are still living in unsuitable and below standard conditions especially from a sanitary and health point of view. Unemployment amongst IDP's remains high.

Although one of the six main strategic goals of the SPPRED program is to "improve the living conditions and opportunities of the refugee and IDP population", there are limited data sources

³⁹ Energy use per unit of Purchasing Power Parity GDP is commercial energy use measured kilogrammes of oil equivalent per \$1000 of GDP converted from national currencies using PPP conversion factors.

⁴⁰ Carbon dioxide is a colourless, odourless and non-poisonous gas formed by combustion of carbon and in the respiration of living organisms. It is considered to be a greenhouse gas.

from which to monitor implementation of this overall aim. The State Committee for Refugees and IDPs (SCRIDP) collects administrative data on the numbers and living places of this section of the population, and also on the type of accommodation in which the IDP households live. There is very little statistical data available on the quality of their accommodation or their general living standards. There are no regular surveys which allow us to monitor the living standards of refugees and IDPs; surveys that allow looking at the differences in living standards within this group, in order to target support.

There is also no satisfactory regular source of information which allows us to look at the differences in income poverty between IDPs/refugees, and the rest of the population. However, a one-off survey of IDPs/ Refugees was carried out in 2002 which allows some comparison of the living standards of this group and the rest of the population, and the results of this survey are discussed in the sections below⁴¹. The other source of data is the SCC's HBS. However, the refugee/ IDP population is represented in this survey in proportion to their representation in the total population, i.e. less than 8%. This makes it a small sample size, which is not suitable for looking at differentials within the group. Apart from these sources,

there have been smaller one-off studies of sections of the IDP/ refugee population, which give, however, a somewhat fragmented picture of their situation. SPPRED envisaged the implementation of an annual survey on the IDP/ Refugee population, but so far there have been no steps taken towards implementing this measure.

Housing and Living conditions

The majority of IDPs are still living in unsatisfactory accommodation with insufficient access to sanitation facilities. According to official statistics, one quarter of the IDP population has settled with relatives. At the same time the remainder is living in temporary accommodation, such as tent camps, public buildings, etc. According to the results of a survey conducted by the World Food Program, up to 2/3 of the households of the IDPs in the rural areas are living in one-room apartments. Another survey conducted with support of the WB has revealed that the majority of the IDPs in the cities and rural areas are living in one-room apartments, 18% of them do not have direct access to water (WB/UNDP 2002).

The state is continuing to resettle the IDPs especially those who are living in places not suitable for habitation. There has been a reduction of people living in camps and railway carriages as can be seen from the table below.

Table 2.19. Housing of IDPs

Accommodation places	1999		2003	
	number (persons)	Share of IDP population %	number (persons)	Share of IDP population %
Public building	66,822	12.2	77,653	13.5
hostel	69,429	12.7	80,435	14
educational institution	50,952	9.3	37,734	6.6
Health centre	29,086	5.3	25,128	4.4
tent camp	50,787	9.3	45,470	7.9
pre-fabricated houses	30,300	5.5	28,027	4.9
Railway cars	8,859	1.6	4,662	0.8
outlying roads (dug-outs)	14,869	2.7	13,114	2.3
houses of relatives	125,896	23	123,064	21.4
Illegally occupied apartments	23,628	4.3	23,503	4.1
unfinished constructions	26,426	4.8	9,326	1.6
Farms	32,386	5.9	59,240	10.3
houses built by the SCRIDP	801	0.1	10,511	1.8
Houses built with the help of donor organizations	16,096	2.9	36,796	6.4
TOTAL	546,337	100	574,663	100

Source: State Committee for Refugees and IDPs, 2003

⁴¹ The information used in this section for identification of the poverty level of the refugees and IDPs is based on the results of the Azerbaijan Survey of the IDPs (AIDPS) carried out by the WB and the UNDP with the participation of the local consulting company. We also report the results from the SSC's HBS, where IDPs and Refugees are represented in proportion to their share in the overall population (less than 8%). In 2002 the sample size for IDPs and refugees was 3303 individuals.

According to the results of the IDP Survey conducted by the WB in 2002, approximately 47% of the IDPs are unemployed (ILO definition). The collected information shows that approximately 33% of the refugees and IDPs were mainly engaged in agricultural activities before they changed their living places. According to the AIDPS results, 15% of the IDPs have access to land. The Government has allocated temporary plots of land for the use of IDPs and it is planned to continue this activity during the implementation period of the SPPRED.

Employment

The level of employment among refugees and IDPs is low. According to a survey carried out in 2001, two thirds of the IDP population is unemployed⁴². The AIDPS estimates that 47% of IDPs/ refugees were unemployed in 2002 - they were 2.6 times more likely to be unemployed compared to the local population. Although there is no official information, it is

generally assumed that IDPs are active in the informal sector, seasonal activity and street trade; i.e. activities which may not be captured by survey questions on employment.

According to the present information given by the SCRDP, out of 292,771 persons, up to 30% (92,869) of the IDPs are working in the formal sector. AIDPS results suggest that most IDPs are engaged in agricultural activities. However, they are known to have limited access to land. Whereas 94% of the population living in rural areas has access to land, the figure for IDPs is 35%.

Table 2.20 shows that there is a difference between the sources and structure of household income of the local population and IDPs/refugees. The Table highlights the fact that the percentage of income from agriculture among refugees and IDPs is 2.5 times less in comparison with local population. The main sources of income of IDPs, as shown, are privileges and state benefits and the main source of income is not from employment.

Table 2.20. Structure of Income: Refugees, IDPs, and Resident Population

	Refugee and IDP	Resident
Wages and salaries	16.9	25.7
Income from self-employment	20.0	18.4
Net income from agriculture	5.9	14.1
Social benefits	14.7	7.7
Pension	6.0	6.5
State benefits	5.9	1.0
Privileges	2.7	0.0
Other income	14.7	13.8
Private transfers	12.2	11.4

Source: HBS, 2002, SSC

In order to resolve the employment problems of IDPs, SPPRED has adopted as priority measures the extension of small loans and encouragement of small entrepreneurship. Provision of soft loans/micro credit for IDPs dealing with agriculture and establishment of small production units carpet-making and weaving are envisaged.

Nutrition and Health

Poverty and instability has had a negative impact on the health of IDPs. Psychological stresses, incomplete and unsatisfactory nutrition, limited access to the health services meant that the incidence of disease has been higher among the IDPs and that disease is more likely to spread among this section of the population. According to

⁴² Figures are based on the findings of the research carried out by "Sigma" research center. (2001)

the information collected by SCRIDP, underweight among refugees and IDPs is two times more than the rest population. 23.5% of the children under 5-year old of the IDPs are suffering from diphtheria.

People with disabilities among the IDPs are 30 per 1,000 persons⁴³. Chronic diseases are 152.8 per 1,000 persons of the population. This indicator is 199.6 persons among the IDPs.

Unsatisfactory infrastructure in IDP settlements also increases the risk of disease. In 56% of the temporary settlements built for the IDPs, drinking water is taken from artesian wells. 38% of the population uses the river and channels as their source of water.

Education

The level of literacy of IDPs does not considerably differ from other social groups of population. (The level of literacy among refugees and IDPs is 97.1%.⁴⁴) But observations give us grounds to say that the refugee and IDP families living in unsuitable condition have problems with access to education. According to the survey carried out in 2001, only 62.4% of the school age children attended schools. 21.8% of them did not go to school at all⁴⁵.

Table 2.21. Education levels of Refugee/ IDP population

Level of education	Refugee and IDP
Illiterate	2.9
Primary	4.2
Incomplete secondary	30.7
Secondary education	37.3
Incomplete higher	13.9
Higher	11.0

Source: SCRIDP, 2002

Lack of school facilities in the areas inhabited by refugees and IDPs means that it is difficult for children to attend. In some areas, schools

operate on a 3-shift system. 94.8% of refugee and IDP families have difficulties in obtaining school materials⁴⁶. The number of the teenagers over 16 with incomplete secondary education is 2 times more (37.8%) than the national level. (SCRIDP, 2002). Enrolment rates for IDPs have dropped due to the difficulties in guaranteeing them with school buildings. Even when these are available, they are often poorly heated and equipped.

As IDPs represent one of the most vulnerable groups in SPPRED, a special package of measures has been prepared to improve their involvement in education. These include the construction of secondary schools in the new settlements and improvement of physical and technical infrastructure in the existing ones are envisaged.

2.8 Social Protection⁴⁷.

Background

The aim of social protection is the protection of individuals and households against risks and lack of security. All individuals are confronted with certain risks, and risks come in many forms. The transition period has placed particular demands on Azerbaijan's social protection system. Firstly because it has had to address the economic hardship and disruption faced by most of the population especially in the initial transition period, and secondly because the previous system of social protection was designed during the Soviet period and has to go through a series of complex reforms in order to function effectively in the new economic setting. SPPRED identifies as one of its main strategic objectives "the reform of the existing system of social protection to give more effective protection to the vulnerable".

Pensions

The average monthly pension in 2002 was 88,493 AZM. This compares to the average monthly wage of 315,406 AZM and average per capita income of 219,695 AZM.

⁴³ Information taken from a survey commissioned by International Medical Corps ((IMC) and carried out by Curation International Foundation (CIF) in order to assess population health needs, utilization of health services and the cost of treatment in Southern Azerbaijan: Sabirabad, Saatli, Bilasuvar, Fizuli, Imishli and Beylagan.

⁴⁴ SSC 2001

⁴⁵ Figures are based on the findings of the research carried out by "Sigma" research center (2001).

⁴⁶ Figures are based on the findings of the research carried out by "Sigma" research center (2001)

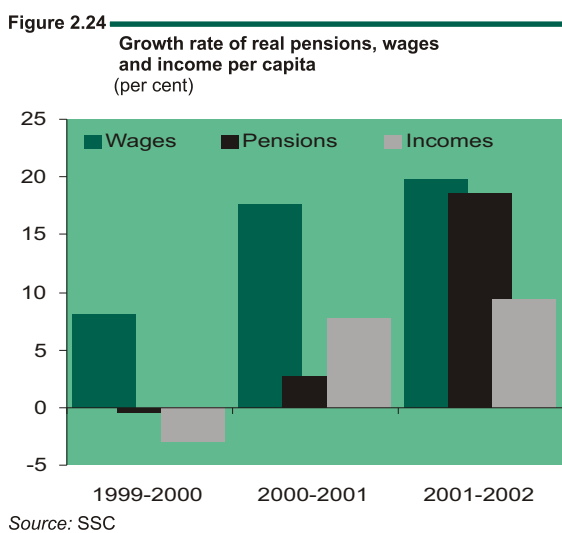
⁴⁷ Social Protection includes social insurance benefits (paid from social insurance contributions) and social assistant benefits (paid from the state budget)

Table 2.22. Average nominal and real pensions, wages and per capita income levels 1999-2003

Indicators	1999	2000	2001	2002	2003
Nominal pensions	64,968	71,984	73,705	88,493	120,300
Nominal wages	184,368	221,606	259,953	315,407	383,100
Nominal incomes per capita	171,000	1,845,33.3	1,982,41.7	219,625	250,000
Real pensions	71,003	70,711	72,616	86,083	117,941
Real wages	201,495	217,688	256,111	306,816	375,588
Real incomes per capita	186,885	181,271	195,312	213,643	245,098

Source: SSC, 2003

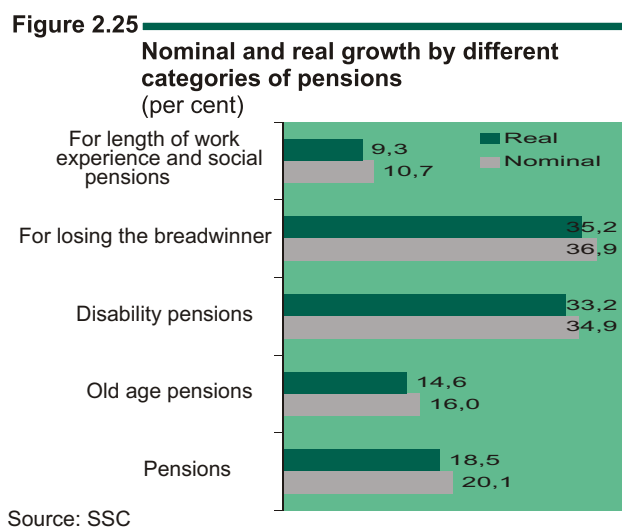
Table 2.22 above shows that average nominal pensions, wages, and per capita income amounts increased, but that real pensions and per capita income decreased in 2000 in comparison with 1999. The situation improved after 2000 (see Figure 2.24).



Using data from the SSC, we can look at the same information for different categories of pensions. As Figure 2.25 shows, both nominal and real pensions have increased in the period 2001-2002. Nominal pensions increased by 120%; old age pensions⁴⁸ by 116% times; disability pensions⁴⁹ by 135%; pensions for loss of head of household⁵⁰ by 137%; service pensions⁵¹ by 119%; and social pensions⁵² by

109%. The increase has influenced the total amount of pensions and welfare payments. The additional welfare payments to unemployed pensioners increased 1.6 times.

Despite the low levels of pensions, the HBS results for 2002 suggest that only 4.9% of all pensioners were poor. However, this result appears to be explained by the fact that most pensioners live with larger families, and benefit from the support of other household members. But if we look at the HBS results for households (rather than individuals), we find that almost 40% of all households can be considered poor (i.e. per capita household expenditure is less than 175,000 AZM); and of these (poor) households, 41% are headed



⁴⁸ Old Age pensions men of 62 with at least 25 years of work (insurance) experience and women of 57 with at least 20 years of work (insurance) experience.

⁴⁹ Disability pensions for limitation of life activity due to having genetic illnesses or injures, physically or mentally or handicapped people

⁵⁰ Pensions for losing the breadwinner is for members of the families whose family head has dies (regardless they are at his experience)

⁵¹ Pensions for length of work was experience are for pensioners whose work was connected with losing capacity to work totally or partially before reaching retirement

⁵² Social pensions are paid to those who are disabled from birth (over 67 years for men, over 62 years for women); to mothers of 57 years who gave birth to 4 or more children; mothers of 57 years who brought up disabled children; children who lost the head of household (breadwinner); disabled children over 16 years.

by a pensioner. This suggests that when pensioners live alone (when they are head of households), or do not have support from other adult family members, current pension levels in many cases do not protect them from poverty.

Social Assistance

The main social assistance allowances are one-off benefits for child birth, benefits for children under 3, benefits for children under 16 years, and benefits for guardianship. There are in fact a total of 35 separate benefits, and one of the aims of social assistance reform is to gradually reduce this number and rationalize the administration of the benefits, as well as targeting them to the poorest sections of the population. The current wide range of benefits are mainly "categorical", i.e. they are paid to

different categories of the population (eg. invalids), rather than being targeted on those who are really in need. This means that the limited state funds which are available for social benefits are not being efficiently utilized.

The State Social Protection Fund's (SSPF) budget comes from two sources: social insurance contributions and transfers from the state budget. In 2003, 57.5% of the SSPF's budget came from social insurance contributions, and 42.5% from the state budget. The SSPF's 2003 budget included 711.24 billion AZM for benefits, equal to 39.3% of the total SSPF budget. State expenditure on social protection (through the SSPF) amounted to 768 bln mantas, of which 586 billion was spent on social assistance benefits; 107 billion AZM for subsidies for transport, communal and other kinds of services, and 75 billion for social pensions.

Table 2.23. SSPF Budget, 2003

	SSPF budget 2003		State expenditure on social protection	
	mIn AZM	%	mIn AZM	%
Total expenditure	1,808,000	100	768,000	100
Pensions (old age, invalid loss of breadwinner)	827,641.8	45.7		
Social pensions	75,000	4.1	75,000	9.8
Social assistance	711,240	39.3	586,000	76.3
Privileges (compensation for subsidies for transport etc)	107,000	5.9	107,000	13.9

Source: SSPF

Child benefits for children from low income families are especially important. Until August 2003, Social Protection Centers provided child benefits for 1,320,172 children from 576,131 families. A further 302,312 child benefits were paid through the parents' place of work. In August 2003, a Presidential Decree ruled that every beneficiary should receive their benefit

from a SPC. The government spent circa 14 billion AZM per month on child benefits in 2003, meaning that the approximate annual expenditure on these benefits was 168 billion mantas. This amounts to 9.3% of the total SSPF's expenditure and is equal to 23.6% of the total amount paid in benefits from the SSPF; and 21.9% of the state budget's social protection expenditure.

Table 2.24. Number of children from low - income families receiving child benefits in 2003

Categories	Amount (monthly, per capita) AZM	Number of children	Amount spent from state budget per year (bln AZM)	
			billion AZM	%
Total		1,511,938	169.7	22.1
Low-income families	9,000	1,484,600	160.3	20.9
Martyr families	35,000	5,629	2.4	0.3
Families of invalids of war	20,000	12,257	2.9	0.4
Families of those doing military service	12,500	2,450	0.36	0.05
Families of invalids of Chernobyl	25,000	7,002	2.1	0.3

Source: MLSP

Unemployment benefits

In 2002, employment centres registered 50,963 people, including 23,088 (45.3%) men and 27,875 (54.7%) women (the unemployment rate based on the registered unemployed was 1.4%; see chapter 2). 3,292 unemployed people, (6.5% of those registered), received benefits from the government. Of these, 1,520 (46.1%) were men, 1,597 (54.9%) were women. The average size of the benefits was 129,800 AZM in September 2003. The minimum amount of benefit is 30,000 AZM, which is 9.5% of the average salary, 17.14% of poverty line and 33.9% of the average pension. The average benefit in September 2003, represented 41.2% of the average salary, 74.2% of poverty line and 146.7% of the average pension. However, the low level of the registered unemployed

suggests that there is little incentive to register as unemployed, either because of the level of the benefit, or because of the lack of help offered by the employment services in finding jobs.

Children

The results of the HBS for 2001 and 2002 suggest that children have been one of the groups most at risk in the years of transition. One indicator for monitoring the poverty risk for children is the number entering institutional care. This indicator has been rising in recent years (see Table 2.25).

Studies have suggested that the main reason for children entering institutional care is the inability of parents to feed and cloth their children due to poverty. (see for example the study done by the NGO "United Help to Azerbaijan" in 2000.)

Table 2.25. Children in Institutions

	1990	1995	1997	1998	1999	2000	2001	2002
Number of nurseries	4	4	4	4	4	4	4	4
Number of children in them	241	166	181	181	184	197	191	173
Number of children's homes	5	4	4	5	5	6	6	6
Number of children in them	397	395	461	548	608	684	705	749
Number of boarding schools for orphans and children deprived of parental care	2	2	2	2	2	2	2	2
Number of children in them	505	548	616	575	569	554	540	516
Number of special boarding school for children with limited health	16	13	13	14	14	13	13	12
Number of children in them	2,811	1,607	2,132	2,359	2,498	2,679	2,731	2,860
Number of boarding school for mentally retarded children	2	2	2	2	2	2	2	2
Number of children in them	515	271	262	302	300	300	348	359
General type boarding schools	50	38	38	37	38	38	39	39
Number of children in them (thousands)	19.4	15.2	16.5	16.1	17.1	17.6	17.8	18.9

Source: SSC

Targeting of Social Benefits

The HBS (conducted annually by the SSC), can be used to look at the extent to which existing benefits are targeted to the most needy, and also at the effect of the benefits in protecting recipients from poverty. We divide the respondents from the 2002 survey

according to their average per capita expenditure levels (respondents are distributed into deciles, with the first decile representing those with the lowest level of per capita expenditure), and we then look at the share of each decile group receiving social benefits, which includes pensions, state benefits⁵³, and "privileges"⁵⁴. This gives some indication of the extent to which existing funds for

⁵³ State benefits include one time allowances for child birth; allowance for children under 3 years; allowance for funeral expenses, allowance paid from the birth till the child is 16 years.

⁵⁴ Privileges include exemption from education fees, food, rent and utilities payment, electricity, telephone, vouchers for sanatoria and recreation centers, medicine, etc.

social protection are reaching the most needy. Secondly, we look at the effect of the benefits

on protecting recipients from poverty.

Table 2.26. Structure of income by deciles (deciles based on per capita expenditure)

	1	2	3	4	5	6	7	8	9	10
Wages and salaries	18.7	17.3	19.4	19.1	16.8	18.1	17.1	15.7	14.8	19.2
Income from self-employment	13.4	16.0	14.8	16.7	17.2	15.5	14.5	13.0	11.2	11.8
Net income from agriculture	7.4	9.4	9.8	10.9	9.5	10.4	12.2	11.8	9.1	8.6
Income from renting of property	16.5	19.3	15.5	13.1	16.0	15.7	15.4	17.1	15.3	17.8
Income from dividends, interest, securities	5.3	6.2	7.4	7.2	8.8	6.2	7.4	9.4	23.8	16.7
Social benefits	8.7	8.0	8.1	7.4	6.8	7.4	6.6	6.2	4.9	4.1
<i>of which:</i>										
Pensions	6.4	6.0	6.5	5.8	5.0	5.7	5.0	4.5	3.8	3.1
State benefits	1.9	1.6	1.3	1.5	1.4	1.5	1.3	1.2	0.9	0.6
Privileges	0.3	0.2	0.3	0.2	0.4	0.2	0.3	0.5	0.3	0.32
Other income	12.4	9.0	9.2	9.9	10.0	10.4	10.8	11.4	8.8	9.8
Private transfers	9.2	7.0	7.7	8.4	8.3	9.0	9.6	9.4	7.4	8.1

Source: HBS, 2002, SSC

The table above shows that the share of social benefits in total income is slightly greater for the bottom four deciles. And the share of pensions is greater for the bottom deciles. This suggests that overall some targeting is achieved, but it should be noted that the share of income represented by social benefits for the bottom

decile is not high: only 8.6%, compared to 4% for the top decile.

Below table shows the share of social benefits being received by the different expenditure deciles.

Table 2.27. Receipt of Social Benefits being Received by Deciles (2002)

Deciles	social benefits		state benefits		Privileges	
	%	Mean	%	Mean	%	Mean
1	11.3	112,693.6	12.8	24,146.1	8.5	3,623.3
2	11.0	108,783.5	11.7	22,048.5	7.7	3,290.4
3	10.9	108,308.2	9.3	17,440.3	8.1	3,472.0
4	10.1	101,407.0	10.0	19,919.23	5.3	2,281.0
5	9.7	96,562.2	10.2	19,276.9	11.4	4,971.8
6	10.8	107,805.6	11.4	21,494.3	8.1	3,447.4
7	9.6	94,895.9	10.0	19,137.8	8.4	3,568.0
8	9.8	19,137.8	9.5	17,977.7	17.8	7,613.1
9	9.2	91,590.4	8.7	16,364.1	10.8	4,627.5
10	7.4	73,499.8	5.7	10,811.4	13.6	5,823.6
Total		99,324.9		18,861.2		4,271.9

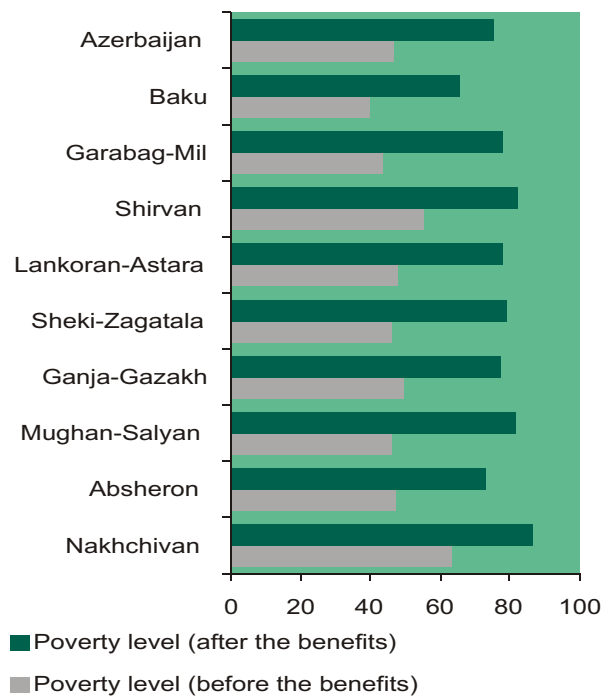
Source: HBS, 2002, SSC

The table above shows that state benefits are distributed more or less equally among the deciles. This shows that categorical benefits (eg one time benefits for giving birth, benefits for children under 3, benefits for children under 16 years, benefits for guardianship and so on) are not targeted to the poor. The situation regarding privileges is worse, with larger shares going to the top deciles than to the poorer bottom deciles. The first decile receives only 8.5% of all privileges, but the 8th decile's share is 17.8% (more than double), and the 10th decile gets 13.6%.

We now look at the influence of social benefits (state benefits, pensions and privileges) in protecting people from poverty. As Figure 2.26 shows, despite the low level of benefits, they in fact have a significant influence on protecting people from poverty. If we subtract the value of the benefits from the per capita income of the recipients, we see that poverty incidence would rise by 30-40% if these people did not receive state social benefits.

This result however cannot be interpreted as meaning that the benefit levels are definitely high enough to protect people from risks. In fact, Figure 2.27 below shows that a large number of the population are situated just above the poverty line, and this means that

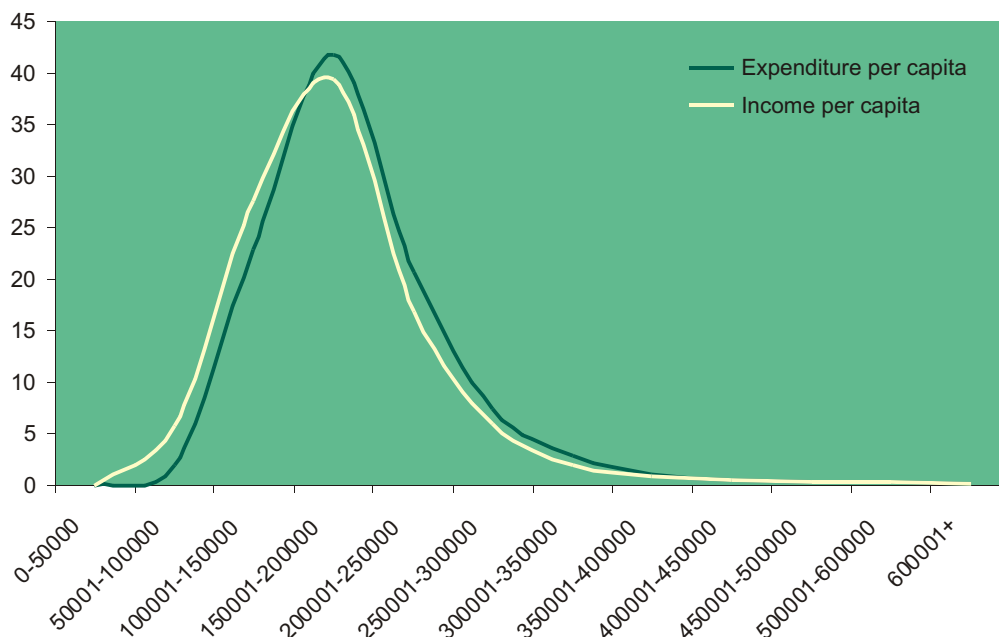
Figure 2.26
Influence of social benefits to the poverty levels by regions (per cent)



Source: HBS, 2002

even a very slight increase in per capita income or expenditure results in large changes in the numbers above the poverty line (taken here as 175,000AZM).

Figure 2.27
Distribution of population by income and expenditure (per capita)



Source: HBS, 2002

Chapter 3: Economic Development and Employment Growth

Fiscal Policy

Introduction

One of the main strategic goals of the SPPRED is to maintain economic stability.

With a view to achieving this goal the following objectives have been set in the Policy Matrix of SPPRED within the framework of fiscal policy development:

- Increasing the effectiveness of planning and expenditure by improving the budget process;
- Preparing mid-term consolidated budget forecast in order to provide for longer planning horizon appropriate for effective poverty reducing expenditure;
- Preparing action plan on increasing municipalities' revenues, in order to reduce their dependence on the State Budget;
- Improving tax and customs legislation;
- Increasing tax collections and social insurance fees by legalizing non-registered economy;
- Examining opportunities and taking decisions about reducing income tax;
- Examining opportunities and taking decisions about reducing taxes on business to promote private sector development;
- Increasing administrative capacity and transparency of tax and customs systems;
- Reducing social insurance contributions to encourage employment;
- Preparing a programme on rationalisation of public expenditure;
- Providing finance to support poverty reduction priorities;
- Improving control over use of budgetary resources;
- Updating and simplifying the norms and standards used as a basis for expenditure budgeting;
- Maintaining appropriate levels of debt and debt services, by improving mechanisms for debt management.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Increasing the effectiveness of the budget process

Regulations on "Budget preparation and implementation" have been prepared and submitted to the CM in order to strengthen enforcement of the Law on "Budget System". This Law, which is in line with international standards, was approved in July 2, 2002 to improve budget forecasting and rationalization of the budget expenditure.

312 bln. AZM (301.4 bln. AZM forecasted) were transferred to the budget to consolidate extra-budgetary funds covering about 3,000 budget organizations into the State Budget in 2003. Extra-budgetary spendings for 2003 were 293.1 bln AZM.

Preparing mid-term consolidated budget forecast

MTEF for 2004-2007, which is in line with a long-term outlook, has been prepared to ensure rationalization of poverty-focused expenditure. This was submitted to the Milli Majlis (Parliament) within the Budget Envelope for 2004 that has been approved.

Increasing municipalities' revenues

Although in the 2003 State Budget envisaged to allocate subsidies of 25 billion AZM to municipal budgets, only 5 billion AZM were allocated for the above-mentioned purpose. The amount of the state subsidies to be allocated from the 2004 State Budget to local budgets (budget of municipalities) is 10 bln. AZM.

Improving tax and customs legislation

Additions and amendments to the Tax Code (with 127 additions and amendments including consolidation and renumbering) was approved by the President of the Republic of Azerbaijan on 28th of November, 2003.

Possibilities of moving from a 6-staged customs tariffs to a 4-staged customs tariffs are being analyzed in order to simplify customs procedures. At the same time, specific customs duties on some types of imported goods have been replaced with ad valorem duties. In addition, the "Kyoto Convention on Simplification and Harmonization of the Customs Procedures" was approved on December 9, 2003 by the Milli Majlis.

Increasing tax collections and social insurance collection

Registration of non-recorded businesses has been improved to increase collections of taxes and social insurance contributions through legalizing

non-registered economic activities. Administrative protocols have been drawn up for 2,800 people, fines amounting to 240 mln. AZM have been imposed and relevant measures have been taken for their registration.

Reducing income tax

According to amendments to the Tax Code approved in November, 2003 free taxable monthly income level was raised from 100,000 AZM to 150,000 AZM with transition from 3-staged tax system (12%; 25%; 35% - 100,000; 1,000,000; 5,000,000 AZM) to a 2-staged tax system (14%; 35% -150,000; 3,000,000 AZM). It came into force from the January, 2004.

Reducing taxes on business to promote private sector development

Profit tax from enterprises, which has been reduced to 25% since January, 2003, has been further reduced to 24% since January, 2004. Agricultural producers has got additional 5 year exemptions from all the taxes (excluding land tax) that came into force from January, 2004 through the relevant Presidential Decree.

Simplified tax turnover has been increased from 30 mln. AZM per quarter to 123.75 mln. AZM (22,500 times of the nominal financial unit⁵⁵) per quarter to expand coverage of the simplified tax system. Rate of this tax is presently 4% in Baku and 2% in other regions. The tax is now applied also to physical individuals (alongside legal entities).

Improving transparency of tax and customs systems

Capacity building and transparency in the management of the tax system has been ensured through raising professional skills of the employees; study of the international experience by expanding cooperation with foreign organizations and countries and public awareness measures. 280 tax inspectors attended training courses on various topics at the Training Center of the Tax Ministry and up to 30 tax employees received training abroad in 2003. Cooperation agreements were signed with Austria, Great Britain, Norway, Russia, Turkey, Ukraine, Moldova, Kazakhstan, Georgia and Uzbekistan and currently relevant

measures are being taken under these agreements. Cooperation with the Inter-European Organization of Tax Administrations, US Department of Treasury, IMF, WB and UN has been continued. It is planned through the technical assistance of EU TACIS Programme to train tax employees and taxpayers, expand services to taxpayers and introduce internal communication technologies.

About 700 workshops, briefings and 8,500 mobile awareness campaigns have been delivered to taxpayers by tax administration bodies on tax legislation and its execution. About 30,000 taxpayers, in total, participated in these events. 14 "Tax News" information bulletins were published in the beginning of 2004 and distributed to local tax bodies in order to explain the recent additions and amendments made to the Tax Code. A website (www.taxes.gov.az) of the Tax Ministry has been created. TV broadcasts about the tax legislation and reform of the tax system such as "Economics" (on the Space TV Channel) and "Where does income flow?" (ANS TV Channel) are regularly produced and broadcasted. Many questions of taxpayers find their answers in "Questions and Answers" column of the "Taxes" newspaper. In addition, a "hot line" service (195) has been recently established and started operating.

Customs employees also attended training courses, workshops covering relevant areas in 2003. Thus newly recruited employees of the State Customs Committee are involved in advanced training in the Training Center of the Committee. All the information, government documents related to customs, new legislative and regulatory framework on tax rates and duties are regularly published on the website (www.az-customs.net) and in "Customs News" Paper of the State Customs Committee. Draft customs agreements have been prepared and submitted to relevant state agencies in line with procedures of preparing them for signing with Turkey, Poland, Romania, United Arab Emirates, Pakistan and the Russian Federation. A "Customs Agreement between GUUAM member states" was signed in the Summit of heads of the states in Yalta, in July, 2003. At the same time, joined working is ongoing with Economic Cooperation Organization (ECO), European Customs Organization, within the framework of the TACIS Programme, Asian Development Bank and other international organizations.

⁵⁵ A nominal financial unit equals to 5,500 AZM.

Reducing social insurance contributions to encourage employment

According to the amendments to the Law on "Social Insurance" compulsory social insurance rate for employers has been reduced from 29% to 27% from January, 2003 to encourage creation of new job places.

Rationalising public expenditures

Number of employees, wage fund, labor productivity and need for decompression of wages in the budgetary organizations are being analysed in line with the Law on "Civil Service" in order to rationalize public expenditures. Thus, considerable efforts have been made to increase wages of those, who work in the public sector. According to the relevant Presidential decrees a 50% increase was applied to monthly wages of the following budget-funded sectors in line with the tariff scheme in 2003: education, health, science, social security, sport, youth, culture, art, mass media, agriculture, forestry, fishery, amelioration and water industry, ecology and hydrometeorology.

Capital expenditures for 2003 and 2004 has been considered 895.3 bln. AZM and 867.6 bln. AZM respectively. So, it has been increased respectively 377.6 bln. AZM and 349.7 bln. AZM compared with 2002.

Improving control over use of budgetary resources

Treasury is currently being computerized through the technical assistance of WB and USAID in order to strengthen control over the use of budget resources.

Improving mechanisms for debt management

Improvement of the legal-normative framework to ensure appropriate level of debt and debt services through upgrading mechanisms of debt management has continued. In this regard, a draft Law on "State Debt and Guarantee" has been prepared and submitted to the Presidential Office, as well as draft Regulations of "External Loans Registry in the Republic of Azerbaijan" submitted to the CM for approval.

Monetary Policy and Development of Banks

Introduction

The following objectives have been set in the

- Maintaining inflation at an appropriate level;
- Improving exchange rate policy;
- Institutional development of the banking system;
- Restructuring and privatising state-owned banks;
- Developing privately-owned banks;
- Increasing the regulatory capacity of the National Bank;
- Developing banking infrastructure.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Maintaining inflation

The policy maintaining inflation at an acceptable level and not using the NB's loans to cover the budget deficit has continued. The inflation rate for 2003 was 2.2%, which is relevant to the forecasted rate (2-3%).

To increase efficiency of the monetary policy tools and regulate the liquidity of the banking system, a number of new financial tools have

Policy Matrix of SPPRED within the framework of monetary policy and banking sector development:

been introduced (for example, pawn-shop and overnight crediting). Work has continued on implementing the strategy of transforming open market transactions into a principal tool of monetary policy. In this regard, a regulatory framework for a number of new tools (rediscount, deposit etc.) has been created.

Improvement in the money supply to the economy, over the recent years, without any detriment to financial stability, continued in 2003 and the increase in comparison with 2002, was 28%. Volume of credits into the economy increased 28.4% in 2003 compared with 2002. As of January 1, 2004 it was 3,339.1 bln. AZM. Share of the

money supply in GDP (in the non-oil sector) increased 1% in 2003 compared with 2002.

Improving exchange rate policy

Recent practice of accumulating oil revenues primarily in the SOFAR has continued and the NB made purchase-oriented interventions in the currency market to prevent appreciation of the real exchange rate of the national currency manat. This is continuation of a policy on sterilizing oil revenues through the SOFAR and other methods. At the same time, additional funds received to the State Budget from the difference of higher oil prices in the world market than forecasted were allocated to a special account. Thus, in 2003 the exchange rate of the AZM to USD changed 30 AZM that is nearly 0.6%, which increased the exchange rate from 4,893 AZM to 4,923 AZM.

Currency reserves have been maintained at an acceptable level and the volume of official monetary reserves, at the disposal of the NB, was 757 mln. USD as of the end of 2003 that is equal to approximately 5 month non-oil import.

More liberal normative documents on currency supervision adopted by the NB including "Regulation on Currency Transactions Regime for Residents and Non-residents in the Republic of Azerbaijan" according to the amendments to the Law on "Regulation of Currency". At the same time possibilities for liberalization of the capital flow have been investigated.

Institutional development of the banking system

A comprehensive strategy development of the micro-finance market (including regulatory and legal framework, infrastructure, demand and supply of the market etc.) has started last year with technical assistance of the ADB. The process of registration of micro-finance institutions and credit unions has been considerably simplified and the license fee has been reduced 27.5 mln. AZM to 605,000 AZM. Micro-Finance Bank has expanded its activities and in 2003, the bank opened 2 new branch offices and allocated credits of 18 bln. AZM to 2,000 people in total. A new draft law on "Micro-finance institutions" is currently being prepared in order to develop regulatory and legal framework of the micro-finance sector.

To encourage expansion of the banking network in the regions, the number of agent banks of the National Fund for Support to Entrepreneurship for allocation of the loans to the regions has been increased to 14. Availability of branch offices in the regions has been determined as one of the main criteria in selection of the agent-banks of the Fund.

85 new branch offices of the commercial banks received a license in 2003 in order to improve access to financial services in the regions. The volume of loans allocated to the agricultural sector increased by 57.3% in 2003 compared to 2002.

In order to expand the network of credit unions, increase their efficiency, and expand their access to financial resources, amendments have been made to the "Regulations on economic regulatory normatives (prudential norms) of Credit Unions" and 13 new credit unions have been provided with licenses.

Within the framework of the project on Development and Crediting of Agriculture implemented through concessional loan of the WB, a license was given to a non-bank credit institution - Executive Credit Agency to provide agricultural enterprises and farms with credits since 2003. The Agency allocated 8.8 bln. AZM to 308 groups of borrowers. Each of the groups consisted of a minimum of 10 farms. In general, within the framework of this project it was stipulated to set up 80 credit unions and 200 groups of borrowers within 2 years period.

Restructuring and privatizing state-owned banks

The Presidential Decree was issued in April, 2003 on privatization of the state-owned banks (International Bank and BUS Bank). 20% of the package of shares of the International Bank, to be sold to the European Bank for Reconstruction and Development (EBRD), was evaluated by the KPMG. A relevant Memorandum of Understanding concerning its sale was signed with the EBRD.

Work on institutional building of the bank is being conducted within the framework of technical assistance to prepare BUS Bank for privatization. A tender commission has been set up to prepare the Terms of Reference for hiring of the financial consultant.

Developing privately-owned banks

In connection with development of the private banks, requirement for their minimum authorized capital has increased from 2 mln. USD to 2.5 mln. USD for the banks, which are already in operation and to 5 mln. USD for newly established banks. Thus, the total amount of the authorized capital of the banks increased 18.3% in 2003.

Participation limits for foreign banking capital was fully eliminated by the NB from January 1, 2004. As a result, the conditions for competitiveness of the banking services market improved and in 2003 for the first time foreign capital was invested in a local private bank (Uni Bank).

Increasing the regulatory capacity of the NB

The new draft Law "On the National Bank of the Republic of Azerbaijan" was submitted to the Presidential Office. Work for improving the quality of the banking supervision and bringing evaluation of the banking supervision to conform to international standards has continued with technical assistance of the USAID.

Developing banking infrastructure

The draft Law "on Banks" was adopted by the Milli Majlis on January 16, 2003 with the aim to strengthen the normative framework and regulatory capacity, also to develop the banking sector, as well as, to form a deposit insurance system.

Creation of a Credit Register that will keep a credit history of legal entities and individuals is

nearly completed. At the same time, preparation of a database design for users of the register has already started.

Adjustment of accounting and financial reporting in the banking system to international standards has been finalized. This will enable potential depositors, customers and especially, foreign and local investors to obtain transparent and precise financial information about the banks. The introduction of these standards gives an additional stimulus for attracting potential financial resources to the banking system.

A number of the normative acts have been adopted to improve human resources management in the banks. Corporative standards of human resources management systems are being worked out in the banks through involvement technical assistance projects.

Encouragement of non-cash settlements was further enhanced and the percentage of cash turnover was decreased by 3.4% in 2003 compared to 2002.

Creation of a Clearing System for Small Transactions as the second stage of introducing a system of electronic payment was successfully completed and measures have been launched to set up a Processing Center on card payments.

In order to create and improve corporate management and risks regulation systems in the banks, the NB has prepared national corporate management standards in line with modern requirements for commercial banks.

The new draft Law "On Collateral" reflecting more comprehensively the issues related to creating a centralized and simplified register of collaterals has been prepared by the NB and submitted to the CM.

Investment policy

Introduction

The following objectives set in the Policy Matrix of SPPRED within the framework of the

investment policy are in line with one of the strategy goals of the Program to create an enabling environment for the growth of income-generating opportunities.

- Improving the legislative framework;
- Institutional improvement of the investment process;
- Improving management of the investment process;
- Increasing effectiveness of the privatisation process;
- Developing entrepreneurship in the regions;
- Strengthening the competitiveness of domestic production and increasing the country's export capacity.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Improving the legislative framework

Laws “On State Registration of Legal Entities” and “On Combating Corruption” have recently been adopted; international conventions “On Criminal Liability for Corruption” and “On Civil and Legal Liability for Corruption” have recently been ratified by the Milli Majlis. Draft Laws “On Investment Activities”, “On Special economic zones and regulation of their activities”, draft “Antimonopoly Code” and draft normative documents on improvement of state financial support to entrepreneurship have also been prepared.

The system of licensing has been radically changed as the number of activities that require a license was reduced from 240 to 30. Depending on specificities of activities the number of documents required for obtaining a license has been minimized; the amount of the state duties for getting a license reduced 2.5 times and the term of licenses prolonged. A single State Register has been created to get licenses.

Institutional improvement of the investment process

In order to improve the institutional framework of the investment climate through holding joint discussions on the problems with participation of public and private sectors and carrying-out relevant actions to reduce barriers, a Council for Entrepreneurs was established in 2002. The Council has held discussion processes in 2002 and 2004 with the President of the Republic of Azerbaijan.

The implementation of the “State Program on Small and Medium Enterprises Development in the Republic of Azerbaijan” has continued and new “Azerbaijan Investment Promotion and Advisory Foundation” has been established in 2003 in a close consultation with the donor community. The First International Investment Conference was organized in May, 2003 that brought together over 600 business people representing foreign companies from 30 countries over the world, state organization and other stakeholders to discuss especially non-oil investment opportunities of the country.

Regional investment maps reflecting socio-economic growth potential and investment priorities of each region have been designed.

As a result of the reforms, both quantitative and qualitative changes occurred in the development of entrepreneurship: share of the private sector in GDP increased by 74%; the number of private individuals and legal entities engaged in entrepreneurial activities increased dynamically; the number of registered companies with foreign investment exceeded 3,250.

Improving management of the investment process

A draft Public Investment Program (PIP) for 2004-2007 has been submitted to the CM. The PIP aims at improving efficiency of public investments in the infrastructure that has essential importance for regional development.

Increasing effectiveness of the privatisation process

In 2003 six state enterprises (Mughan hydropower plant, Shaki hydropower plant, Diplomat Ltd, Baku Steel Foundry, Azerelektoterm and Dashkasan Ore-Dressing Plant) have been privatized through investment competition.

State shares of four joint ventures have been privatized in 2003: Khazar-III, Diplomat, Azvirt and Bakcell. Three of them have been purchased directly by a foreign partner, but the state share of Diplomat has been privatized through investment competition. Applications have been made to the Ministry of Justice of the Republic of Azerbaijan to exclude joint ventures, which are non-active and non-recorded in the tax bodies, from the state register and taking them off the registration. Draft regulations have been prepared to regulate activity of state representatives with a view to effectively manage state shares of joint ventures.

According to the Presidential Order in March, 2003, several enterprises of machine-building and conversion sectors have been declared open to privatization. About 30,000 small enterprises have been privatized, over 1,500 medium and big enterprises turned into joint stock companies over the last 8 years.

Based on the experience gained from the privatization of management of electricity distribution overall the country the technical

assistance project (WB's Institutional Building Technical Assistance (IBTA project)) is under implementation for preparation of gas, water and sanitation sectors' restructuring.

Developing entrepreneurship in the regions

As was mentioned in the monetary policy section, the number of agent banks of the National Fund for Support to Entrepreneurship for allocation of the loans to the regions has been increased to 14 and the relevant Budget resources has been increased from 57 bln. AZM in 2002 to 100 bln. AZM in 2003. Availability of branch offices in the regions has been determined as one of the main selection criteria of the agent-banks by the Fund.

Discussion process through round tables and seminars with broad involvement of all the regions, have been regularly organized during the past 2003. In order to increase public awareness of the business people, a website on "State Care for Entrepreneurs" (www.sahibkar.biz) has been created, and a "hot line" service (971332) organized at the MED to respond to any business-related questions and prevent unnecessary interventions in entrepreneurial activities. Efforts are being made recently to produce an economic TV broadcasting with a special focus on development of entrepreneurship on the state TV. In addition, booklets on normative-legal documents enabling business planning have been published, a handbook entitled "Development of Entrepreneurship in Azerbaijan" has been prepared and a series of books entitled "Basics of entrepreneurial rights in Azerbaijan" have been published. An example of normative-legal documentation to establish professional-entrepreneurs associations have been prepared and delivered to entrepreneurs.

There has been a strong focus on providing loans for production and processing industry with import-substituted industrial and agricultural products, as well as export oriented products with high quality of international standards. Such loans have made 92% of the total loans allocated to the entrepreneurs in 2003.

A Baku Business Center has been established in the National Seaside Park in 2003 with support of the UNDP. The Center, as part of

SMEs information system, takes important role in increasing sales capacity of the goods produced by local SMEs from the regions and finding new markets for them. There has been already organized several business meetings between local entrepreneurs and business delegations from a number of countries in the Center.

To improve business relations with potential countries, local business people have attended several exhibitions, international trade-fair, conferences and economic forums in several countries during the last year. Also visits of foreign business people to Azerbaijan from several countries and their direct dialogue have being organized in 2003.

Strengthening the competitiveness of domestic production

In order to continue the process of admission to World Trade Organization (WTO) through fair trade negotiations, a State Commission consisting of high-ranked representatives of the government agencies has been formed by Resolution of the CM on August 22nd, 2003. The Commission is responsible on preparing of documents on the country's admission to the WTO and the proposals agreed with the relevant government agencies as well as ensuring a common economic policy in the negotiations with the WTO. In this regard, the Commission has established 9 working groups in various areas (analysis of legislative changes; preparation of commitments on subsidizing the agrarian sectors; issues related to intellectual property; social issues; regulation of investments; preparation of commitments on the service sectors; trade technical obstacles and sanitary-phytosanitary measures; conflict resolution and preparation of commitments on customs duty rates), as well as, a Secretariat, which will effectively coordinate activities of the Commission and working groups. A Concept Paper on Admission to the WTO and an Action Plan has been drafted by the Secretariat.

Within the framework of the technical assistance project funded by United States Trade and Development Agency (USTDA) (signed in 2002) a number of seminars have been held to discuss possible impact of Azerbaijan's admission to the WTO on the country's service market. It is expected to have the second meeting of the Azerbaijan Working Group on the WTO in 2004 and a preparatory work for the meeting is being coordinated by the Secretariat. Furthermore, a study of the experience of a number of countries in

admission to the WTO has continued. A delegation from the Republic of Azerbaijan attended WTO Cancun Ministers Conference in September 10-14, 2003.

As mentioned in the fiscal policy section, the tax burden has been reduced, coverage of simplified tax has been expanded and proposals designed for creation of bonded warehouses have been submitted to the CM.

In order to form an effective quality control system for goods and services, the guideline documents of national certification system have been adjusted according to requirements of the international standard "ISO-9000". Draft regulations on "Import of Goods Subject to Obligatory Certification to the Republic of Azerbaijan" and "Recognition of Foreign Certificates" have been prepared to ensure safety of goods imported to the Republic of Azerbaijan and subject to obligatory certification.

The Tariff Council functioning since January 31, 2002 has organized several meetings on tariffs of various services during 2003: urban and rural telecommunication services; services of the Department for Technical Inventory and Registration of Property Rights; wholesale water price from Jeyranbatan reservoir; duties for goods and transport means in customs warehouses and in temporary storage warehouses and for customs control; for use of ambulances from First Aid Motor Depot of Baku Health Department.

According to the Regulation of the Council, the Secretariat is based in the MEDto co-ordinate the following working groups: on prices for oil and gas products, on wholesale and retail tariffs for

electricity, on customs duties, on education and healthcare services, on law enforcement authorities, on environment, natural resources and agriculture, on transport services, on communication services, on water and utilities, on inventory, leasing, pricing and related technical spheres, on patent, information and publicity services. In total, more than 150 specialists from various ministries and organizations have been involved in the working groups.

In order to increase capacity of the Tariff Council, various workshops have been organized in 2003 within the WB IBTA project. Through the workshops the international experience in regulation of prices (tariffs) for energy carriers have also been discussed.

In order to protect competitive domestic production and to create enabling environment, the Tariff Council has prepared proposals to identify and change customs tariff rates and duties, introduce customs tariff concessions, regulate list of goods exempted from VAT and investigate the possible negative impact caused from import of goods. On the basis of the proposals CM issued a Resolution in October, 2003 to make amendments on the rate of customs duties for import and export operations, the amount of collections for customs registration.

Based on proposals by the Tariff Council the Cabinet issued Resolution "On Regulation of Prices for Crude Oil and Oil Products in the Republic" in February, 2003 in the framework of Program "On Strengthening Financial Discipline in the Energy Sector" approved by the Presidential Order in March, 2002.

Energy policy

Introduction

In order to improve the energy supply of the population, increase existing energy potential

and carry out institutional reforms in the energy sector, the following objectives has been set in the Policy Matrix of SPPRED:

- Improving energy supply to the population through strengthening financial discipline in the fuel-energy sector;
- Implementing structural reforms;
- Developing carbohydrate capacity;
- Introducing efficient price policy;
- Improving the energy supply system.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Implementing structural reforms

Within the framework of structural reforms in the energy sector the Presidential Decree was issued in January, 2003 on restructuring of State Oil Company of Azerbaijan Republic (SOCAR). According to the Decree 3 departments of the Company have been declared open to privatization, 2 production units and 2 departments have been merged; previous 18 units has been structured to 8 units. Besides, enterprises within the SOCAR with the same production specificity and profile, which had been part of separate units before, have been merged under same structural units. As a result, previous 148 units, enterprises and structures of the SOCAR have been restructured to 60.

Improving energy supply to the population

To ensure fiscal transparency and efficiency in energy sector, the experience making implicit subsidies explicit through recording in the State Budget has been ensured. Thus, the 2004 State Budget figures are 1,850 bln AZM for Azenergy and 326.7 bln AZM for Azerigas. The relevant figures for 2003 were 1,500.8 bln. AZM and 97.8 bln. AZM respectively.

To improve management of energy supply, regional electricity distribution networks have been transferred for long-term private management to "Barmek" and "Bayva" electricity distribution companies.

To improve collection rates and ensure energy consumption efficiency, 97,270 (by Barmek) and 29,000 (by Bayva) electricity meters were purchased and installed for consumers in 2003. At the same time, 50,000 gas meters have been purchased and installed by Azerigas last year.

Computerized system has been established by Azerigas to enable automatic purchase and sale of natural gas. The system is now fully operational in Baku, Sumgait, Ganja, Ali-Bairamly, Shamakhy, Siyazan and Davachi.

Introducing efficient price policy

According to the Presidential Decree issued in March, 2002, payment dynamics for energy consumed by the state enterprises has been prepared and approved: 2002 - 20%, 2003 - 30%, 2004 - 45%, 2005 - 65%, 2006 - 80-100%.

Regulation of energy prices have been regularly discussed between the Government structures of the fuel and energy complex and Tariff Council as is stated in the investment policy section of this chapter.

To ensure elimination of negative impact of possible energy price increase to the poor households, a joint technical assistance project on Poverty and Social Impact Analysis (PSIA) has started in 2003 with technical assistance of the WB. A working group has been established within the project that brings together all the stakeholders of the process. It is expected to have a first draft of the policy document by mid of 2004.

Developing carbohydrate capacity

Loan agreements for around 1.2 bln. USD for financing BTC main export oil pipeline have been finalized with the IFC, EBRD and other financial institutions. Approximately 40% of the planned pipe-laying activity was completed by the end of 2003; the full construction will be completed by the end of 2005. The BTC project is being managed by BP on behalf of an international group of investors which includes SOCAR, TPAO, Statoil, Unocal, Itochu, Delta Hess and ENI.

Development of the BTC pipeline is being coordinated with another project the South Caucasus Gas Pipeline which follows the same route through Azerbaijan and Georgia. First export of the gas is expected to happen in 2006. Design engineering and logistic supply related to the project is being continued on schedule and it is envisaged to start pipe-laying activity by the end of 2004.

To ensure a stable increase of oil and gas exploration, to exploit the remaining reserves in old fields through developing the geological-technical and technological measures, 1,020 geological measures (806 was planned) have been implemented and consequently, extra 489.7 thousand tons of oil (expected 266.4 thousand tons) has been produced by oil and gas extraction departments of SOCAR in 2003.

311 non-active wells (planned 353 wells) by oil and gas extraction departments and 109 non-active wells (planned 64 wells) by joint ventures have been re-activated. Consequently, extra 187.4 thousand tons of oil (expected 119.6 thousand tons) was produced.

By the end of 2003 total number of well reserves of the SOCAR has been increased to 6,793 (86 wells more compared with January, 2003); the number of oil and gas extraction departments and joint ventures have become 5,567 for and 1,226 respectively.

5.4 mln.m³ water has been pumped into the layers in 2003 that made extra 232 thousand tons of extra oil produced from the facilities under pressure by oil and gas extraction departments of SOCAR. Extra 47.4 thousand tons of oil has been produced as well as a result of introducing other techniques (III pressure methods) to increase oil production of layers.

Improving the energy supply system

Constructions of gas pipeline from Garadagh to

Shimal Power Plant and Garadagh compressor pump have been completed last year. Necessary technical documents on construction of the II Steam-Boiler Unit with capacity of 400 MWt in Shimal Power Plant and reconstruction of the 1st and 8th units of AzDRES have been prepared and negotiations are being conducted with IFIs on the possible loan agreement.

Project documentation on reconstruction of the underground gas storages and expansion of their capacity has been prepared and it is envisaged to increase gas storages with capacity of 3.5 bln. m³.

Within the framework of the second stage of power transmission sector reconstruction, a loan agreement was signed with KfW for the reconstruction of 9 power substations and the first phase of Azenergy's control-dispatcher point. Consulting company has also been selected in this regard.

The National Academy of Sciences together with relevant central executive bodies has drafted the "National Program on use of alternative energy sources" submitted to the CM last year.

Labor Market and Employment

Introduction

The following objectives set in the Policy Matrix of SPPRED within labor market and employment section that are in line with one of the SPPRED's strategic goals to create an enabling environment for the growth of income-

generating opportunities. Although information on implemented policy actions are reported in the investment policy section of this chapter main focus in this part is made on measures implemented within the framework of active and passive labor market:

- Stimulating the demand for labour through promoting regionally-balanced employment growth in the non-oil sector;
- Helping to match labour supply with demand;
- Providing incentives to attract and retain well-qualified and motivated civil servants through civil service wage reform;
- Providing support to the unemployed through policies for facilitating their re-entry into the job market;
- Regulating Labour Relations;
- Monitoring the labour market in order to make better-informed policy interventions.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Stimulating the demand for labour

Within the framework of SPPRED a new State Program on social and economic development of the regions for 2004-2008 was prepared in 2003 and was approved by the Presidential Decree in February, 2004. The main goal of the

Program is to create 600,000 new job places for the mentioned period through promoting non-oil sector development in the regions.

Furthermore, comprehensive regional development plans of Guba-Gusar-Khachmaz (northern part) through technical assistance by Israeli Government (MASHAV) and Lankaran-Astara (southern) regions were prepared last year.

As is mentioned both in monetary and investment

policies sections of this chapter micro-finance environment was fully analyzed within the framework of micro-finance sector development project through the technical support of ADB. The objective of the project to develop credit schemes for various sections of the population intending to set up business. Based on analysis micro-finance sector development strategy (including regulatory and legal framework, infrastructure, demand and supply of the market etc.) is expected to be prepared by mid of 2004. The process of registration of micro-finance institutions and credit unions has been simplified and the license fee has been reduced last year. Micro-Finance Bank has expanded its activities and increased credit portfolio.

In order to improve access to SME loans the Government is continuously increasing the budget resources through the agent banks of the National Fund for Support to Entrepreneurship: from 13 bln. AZM in 2001 to 57 bln. AZM in 2002 to 100 bln. AZM in 2003.

As is mentioned in the investment policy section above the Baku Business Center has been established in the National Seaside Park in 2003 to support entrepreneurship development in the regions through regular exhibitions, conferences and bilateral meetings with foreign business people. This project has been supported by the UNDP.

Helping to match labour supply with demand

In order to redesign the system of vocational education, the situation analysis on the system was made in 2003 and the proposals were submitted to the CM on their profile change according to the market demand, their restructuring through closing down or merging the relevant schools, improve the physical infrastructure to meet modern standards, selecting the vocational schools with better physical infrastructure to transfer them to vocational lyceum, organizing general education classes within the lyceums and amendments to the "Classification of specialties and specialization in vocational education".

Technical assistance to develop a strategy to improve the systems of career counseling, vocational training and re-training is envisaged

within the framework of the EU TACIS National Indicative Program for 2004-2006 approved in 2003.

Regular training courses on dressmaking, carpet weaving, hairdressing, confectionary and weaving were organized for women in the different regions by the State Employment Service (SES) in 2003. More than 50% of the women, who completed these courses, were provided with appropriate jobs. Also, 70 new jobs were created for unemployed with a special need for social protection in 2003.

Ensuring civil service wage reform

As is given in the fiscal policy section of this chapter the several measures have been implemented in 2003. Wages of the following public sectors employees has been increased 50%: education, health, science, social security, sport, youth, culture, art, mass media, agriculture, forestry, fishery, amelioration and water industry, ecology and hydrometeorology. Minimum wage level has been increased from 27,500 AZM to 45,000 AZM since September, 2003 and to 60,000 AZM since January, 2004. Wage co-coefficients started to be applied for the regions with difficult working and climatic conditions since August, 2002 according to the Resolution of CM.

In November, the President of the Republic of Azerbaijan issued a Decree "On Measures to speed up the social and economic development in the Republic of Azerbaijan". The Decree alongside with important measures on socio-economic development also envisages further development of the wage system and instructs CM to submit proposals on further increase of the wage level based on the first half of 2004 results.

Facilitating re-entry of the unemployed into the job market

Preparation process of employment strategy has started in 2003 through technical assistance of the UNDP and ILO. In this regard, a working group with participation of relevant ministries and international organizations has been set up and various discussions have been organized. The sector and situation analysis has been made that includes social and economic situation, employment and labor market, education as well as mutual impacts with the social protection system. The preparation process of the strategy is

expected to be completed by mid of 2004.

In order to improve SES's management, staff number was reduced 141 persons according to the Resolution of CM in November, 2003, a special program for vocational training of job-seekers and the unemployed has been approved and preparation of an action plan to further develop a social dialogue between the employees, employers and trade-unions has been started last year.

The Labor Exchanges in Baku and Sumgait expanded its activities in 2003 and it is expected to have new Labor Exchange Office opened in Ganja for 2004.

Regulating labour relations

Sector and collective agreements, which are essential parts of the social dialogue, were concluded last year and were registered at the relevant structural divisions of State Labor Inspection. The Main Collective Agreement between the CM, Trade-Union Confederation and the National Confederation of Entrepreneurs (Employers) for 2001-2003 approved by the Resolution of CM in June, 2001 was in force in 2003 as well.

Monitoring the labour market

Within the framework of the WB IBTA-I project component on labor deployment, the terms of reference for consultancy was prepared together with the relevant structures of the MED, the company was selected through open international tender.

In order to organize regular analysis of unemployment situation in the country and institutionalize this process, labor force survey has started to be implemented by the SSC since 2003. In 2003 this initiative was supported by ILO and UNDP.

A draft of Concept Paper on the State Migration Management Policy was prepared in 2003 and submitted to the CM. In order to establish a Migration Information Center, several discussions were organized with the experts of the relevant ministries and the organizational structure of the center was designed. In addition, draft project documentation has been prepared and submitted to the potential donors for their possible financial support.

According to the Presidential Order issued in June, 2003, the State Coordination Commission on the population development has been established. The Commission has formed a working group through which State Program for demography and population development was drafted out. Research Center for Population Development was established under the Scientific Research and Training Center on Labor and Social Problems with support of the UNFPA in 2003.

Chapter 4: Social Policy and Human Capital Development

Education Policy

Introduction

One of the main strategic goals of the SPPRED is to improve the quality of basic education

services and equal access to them. With a view to achieving this goal the following objectives have been identified in the Policy Matrix of the SPPRED:

- Increasing equality of opportunity in basic education through provision of free textbooks to school children;
- Improving the quality of teaching;
- Improving the material and technical base of education and ensuring equal access to secondary education;
- Improving equality of access to school education through assisting poor families with clothing for the children attending school;
- Introducing new educational technologies;
- Improving life skills education of adolescents;
- Promotion of Early Childhood Care and Development (ECCD);
- Increasing equality of access to learning materials by improving the material and technical base of school libraries;
- Introducing more flexible budget management systems for schools;
- Monitoring quality and access to education.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

New Reforms Project

In order to continue the Education Reform Project a new 10-year, 3 staged Education Reform Program covering 2003-2013 was prepared jointly with experts from the WB, within the framework of the SPPRED. Thus, I stage of the Program will cover 2003-2007, II stage - 2007-2010 and III stage 2010-2013.

Providing free text books to school children

About 15.2 bln. AZM have been allocated from the state budget to provide all children in the I-V grades, as well as refugee and IDP children in the VI-XI grades with free textbooks for the academic year of 2003-2004. The textbooks have been published and distributed.

Improving the quality of teaching

In order to upgrade teaching resources to improve the quality of education, new teaching plans have been designed. These are for "Azerbaijani language", "Mathematics", "Geography" for the V-XI grades, "Physics" and "Astronomy" for the VII-XI grades, "Biology" for the VI-XI grades, "Literature" for the V-XI and "Mother tongue" for the I-IV grades of minorities. For the first time, complete sets of

"Literature" text-books for the V-VI grades of selected pilot schools, "Russian language" and "Literature" for the Russian schools, have been published and distributed to schools. These sets also included working papers and teaching support methods for teachers. This is part of the Education Reform Project, using soft loans from the WB. New courses on reproductive health and life skills in the education system have started, in order to promote a healthy life style among adults and youth.

25 New strategic initiatives have been identified for re-qualification and retraining of teachers and an appropriate action plan has been developed to be implemented over the next period. The plan identifies 11 sets of actions for 2004. These include activities such as: prior needs assessment; upgrading advanced teacher training institutions; assessment of changes; introduction of regular self-monitoring and self-assessment; special advanced training for lecturers; introduction of support/resource centers; creation of equal conditions for teachers; re-qualification of teaching staff in vocational institutions and academic teaching material for re-qualification and retraining. Plans and instructions, covering 105 objectives, have been prepared. These are aimed at improving efficiency of teacher training in the institutions, regional education departments, schools, support/resource centers, the Education Coordinating Council, the Institute on Education Problems, and also management staff in education. The Plans and Instructions have been tailored to the needs of each organization.

Targeted seminars have been held. The following topics were addressed: "Preparation of curriculums for retraining institutions", "Active and interactive teaching/training methods". These seminars were attended by 1,200 employees from advanced teaching institutions, Institute on Education Problems, as well as teachers from pilot schools. In addition, training courses consisting of 3 stages based on "Train the trainers" model have been delivered to 66 teachers from 20 pilot schools, trainers from regional education departments, as well as 62 trainers from re-qualification institutions. Certificates were awarded during May-August, 2003. The teachers and methodologists (educational advisors), who attended these courses, will start teaching their colleagues in active and interactive methods from the beginning of the new academic year. Special workshops devoted to the introduction of active and interactive methods were organized at the pilot schools of Baku, Sumgait, Nakhchivan and Sharur from the midst of last year.

According to the Presidential Order dated May 15, 2003, from 1st of June 2003, monthly wages of 320,000 teaching staff in public educational institutions in line with the Single Tariff Board criteria have been increased by 50%. Additional amount of 230.8 bln. AZM has been allocated for education for 2003.

Improving the material and technical base of education

6 school buildings with 2418 seats were built in 2003. The construction of 12 school buildings with 4,328 seats is currently under way. At the same time 89 extra classrooms with 1,780 seats were built and put in commission at 12 schools and 34 extra classrooms with 680 seats are being built at 4 schools. Major repair work was carried out at one school. Construction of 5 school buildings with 5,576 seats, meeting modern requirements, in Khatai, Nasimi, Surakhany, Yasamal and Binagadi Districts of Baku has been postponed till 2004. This will be supported by soft credits allocated from the Saudi Fund for Development (SFD); tender documents are being prepared.

Introducing new educational technologies

Within the framework of Education Reform Project funded by the WB, 20 pilot schools in

Nakhchivan AR, Baku, Ganja, Sumgait and Lankaran were provided with computer equipment and other training-related technical support in 2003. 3 Pilot regions Ali-Bairamly, Ujar and Ismailly were selected for improving information technology in the schools.

Promotion of ECCD

International experience in creating community-based preschool facilities is explored in order to expand pre-school facilities and introduce new models in pre-schooling. In addition, a Charter on establishing family-based preschool facilities is currently being prepared. In parallel different structures started operating based on the interests of children and parents' wishes in pre-school facilities in several districts of Baku. Currently, with the help of UNICEF, the Project on "Parent and Child Development" is being implemented. 3 Pilot preschool facilities of Narimanov district, Sumgait and Khyzy region, included in the project have been provided with necessary equipment, technical support, stationary, toys and teaching aids. Besides, 29 child development centers in 13 regions of Azerbaijan and 5 in Mingachevir have been established for the children from refugee and IDP families and provided with stationary, toys and some literature. The World Food Program (WFP) regularly provides nurses and children of these development centers with food supplies. Regular training covering nurses and parents are organized in the child development centers and preschool facilities selected within the framework of the stated project.

A theoretical and practical conference on the subject of "Training center as a new service sector in education" was held at nursery №257 in Khatai District with technical assistance from the Open Society Institute Support Fund in April 2003 and a new training center was opened. Within the framework of "Step by step" technology project supported by the Open Society Institute Support Fund, introduction of modern, as well as interactive methods in the teaching and educational process has started at 53 preschool and primary education facilities (including about 160 groups). 4 preschool and primary training centers (Salyan, Gakh, Aghjabadi regions and Ganja) have been established, repaired, provided with necessary equipment and funds for training within the framework of the same project in 2003.

Improving the material and technical base of school libraries

The President of the Republic of Azerbaijan signed an Order in January 12, 2004 to ensure mass re-print of the publications in the Azerbaijani-Latin alphabet, which previously were published in the Azerbaijani-Cyrillic alphabet. A list of publications to be re-printed in the Latin alphabet in 2004 was approved in the Annex to the Order. About 160 dictionaries and encyclopedias, works of world literature, Azerbaijan's folk literature and classics and modern Azerbaijani literature will be published in the Latin alphabet within 2004. In line with this Order a list of publications to be re-printed in the Latin alphabet in 2005-2008 will be prepared.

Following this Order (January 12, 2004) preparations have started to publish a new National Encyclopedia consisting of many volumes in 2004-2008 in the Latin alphabet. The first volume of this encyclopedia, which is entitled "Republic of Azerbaijan", will be published in the Latin alphabet and distributed by the end of 2004.

Introducing more flexible budget management systems for schools

Culture

Introduction

As part of SPPRED several activities are now being carried out to preserve the rich cultural

- Improving equity of access to cultural and art centers;
- Stimulating art workers and improving their skills;
- Protecting the cultural heritage.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Improving equity of access to cultural and art centers

The State Philharmonic named after M. Magomayev was refurbished and work has started on improving the State Art Museum in 2003. An electronic catalogue is being compiled as part of modernizing the museum. Refurbishment of the Central State Library, named after M.F.Akhundov, has started to be completed in 2004. Measures have continued

With a view to improving budget rationalization and financial management in the education sector, within the framework of IBTA Project an international consultant has been involved to analyze financing of education, education expenditure, its effectiveness and education priorities for the Government. Training sessions on the methods of analyzing expenditure have been held and work on analysis of education expenditure is presently going on in the Ministry of Finance.

Monitoring quality and access to education

For the first time, a national assessment, in line with international standards, has been held within the framework of Education Reform Program, to review teaching conditions and quality of education at 11 schools in Baku, 5 in Lankaran, 2 in Ganja and 2 in Sumgait (8 pilot and 12 non-pilot schools). Thus, approximately 1,900 children of the V grade were tested with participation of the international consultants, on the subjects of "Mother tongue" and "Mathematics", as well questionnaire and surveys have been held among pupils and teachers.

heritage, improve the existing facilities and widen access to culture of Azerbaijan. To achieve this, the following objectives have been set:

at Baku Choreographic School, as well as schools of music, art and painting for children, to improve their facilities.

Stimulating art workers and improving their skills

According to the Decree of the President of the Republic of Azerbaijan dated June 5, 2003, from the 1st of June of the same year, monthly wages of the state-funded employees of culture, art and mass media (total number is 30,100), as fixed by the Single Tariff Scheme, have been increased by 50% as mentioned. Thus, additional funds of 12 bln. AZM were allocated for 2003.

Protecting the cultural heritage

Within the framework of “Cultural heritage preservation” conservation of Momuna Khatun and Garabaghar tombs were completed in September 2003. This project was implemented with a soft loan from the WB. The reconstruction of the second storey of Shirvanshahlar Palace has been mainly completed and issues related to the purchase and the installation of equipment for the Palace is currently being settled. A technical inspection to refurbish Shaki Khan Palace, which is another part of the project, has been completed. At present, repair is continuing and the construction of supporting buildings and units has started. The aim is to restore the unique internal mural paintings and ornaments of the Palace. As agreed, all rehabilitation work in Shaki Khan Palace is expected to be completed in 2004.

Within the same program additional work has been carried to make an inventory, to

computerize and repair cultural objects. As a result of this, quality repairs have been made and a computerized Cultural Heritage Archive has been established for the first time in Azerbaijan.

A “New Development Program” has been introduced by the Government of the Republic of Azerbaijan and the WB in order to use the saved funds (1.2 mln. USD) within the framework of the Cultural Heritage Preservation. The Program envisages directing the saved funds to the development of the community and infrastructure around the monuments, in particular in the poor areas. Therefore, the following activities are planned: to establish a Center for Cultural Service and Information in Ichari-Shahar, hold a holiday-festival “Day of Ichari-Shahar” and improve the environment; organize training in tourism; support establishment of tour-operator companies (to be created by the participants of a training course in Nakhchivan); establish an Association of Craftsmen and Family Recreation Association, as well as develop tourism in Shaki.

Health Policy

Introduction

One of the strategic goals envisaged in the SPPRED is to improve the quality of basic

health care services and to provide equal access to them. The following objectives have been set for this purpose:

- Guaranteeing access to basic health services through strengthening of Primary Health Care System (beginning in 10 regions);
- Strengthening the material and technical base of health sector and expanding access to health services;
- Reducing infant and under 5 child mortality rates, as well as incidence of child diseases, through expanding program on immunization and gradual increasing of state financing for its implementation;
- Promoting safe motherhood and essential care for the newborn;
- Improving management of childhood diseases;
- Preventing malaria and reducing malaria incidence;
- Reducing incidence of TB;
- Providing access to contraceptives from reliable supply systems;
- Reducing Iodine Deficiency Disorders;
- Reducing health risks through promoting healthy lifestyle and health education to prevent substance abuse (tobacco, alcohol, drugs) and reduce sexually transmitted infections and HIV/AIDS;
- Improving health information system;
- Designing and introducing a system for monitoring access to safe drinking water;
- Improving budget rationalization and financial management in the health sector.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Strengthening the Primary Health Care System

Work has been launched with regard to

reducing the number of beds, establishing community drug funds and community health councils in 5 pilot regions (Salyan, Khachmaz, Sharur, Goychay and Shamkir) in order to strengthen primary health care and rationalize medical services within the framework of the WB funded Health Reform Program. Thus, 45 community health councils have been set up, 5

medical storehouses and 10 training centers refurbished, and a Rationalization Plan of the pilot regions has been prepared. These plans include reduction of beds, redundancy of medical staff, opening of new posts, professional training and other plans. 15 different training courses have been held in each selected pilot region for developing the skills of the medical staff. 914 Medical employees and 105 community members attended training courses, workshops and conferences.

Strengthening the material and technical base of health sector

8 hospitals in the Baku City is considered to be refurbished through EU technical support (Institute of Traumatology, Scientific-Research Institute named after Topchubashov, Hospital named after Mirgasymov, Oncological Center, Institute of Obstetrics and Gynaecology, Institute of Pediatrics, Clinics No 4 of the Baku City, Centre for Combating AIDS). Refurbishment of the Institute of Traumatology has already been launched and the tender documentation has been prepared for the others.

Expanding program on immunization

Various types of vaccines have been purchased by the Government in order to implement the Immunization Program. 98% of children have been vaccinated with Hepatitis B; MMR vaccines and disposable syringes have been purchased for 30,000 children in 2003. 900 dozes of A vitamins for strengthening the immune system, have been purchased and distributed to all the regions. In addition, training courses and public awareness work was implemented. About 2.1 bln. AZM were allocated from the State Budget for the Immunization Program in 2003 which is approximately 40% of the overall vaccination costs. Hardware for disposal of used syringes in line with safe immunization have been purchased and distributed to 10 regions. Refrigerators and generators have been purchased to strengthen and maintain a cold chain system to cover 20 regions. Monitoring has been implemented in 30 regions within the framework of the EPI.

Promoting safe motherhood and essential care for the newborn

In order to encourage breastfeeding, 185 medical employees attended training courses in 37 locations; surveys have been conducted among pregnant women in the same areas. Monitoring of breast feeding is taking place in 9 baby clinics. To increase birth safety and enhance basic newborn care, training courses took place with support from UNICEF in 25 areas (with 5 doctors in each area). To promote and protect breastfeeding of infants and young children, a Law on "Nutrition of Infants and Young Children" was adopted on July 17, 2003. May 1-2, 2003 was celebrated as the "National Days" for healthy nutrition of the children in Azerbaijan.

Improving management of childhood diseases

Essential drugs of 19 types have been supplied to 30 regions in order to improve medical treatment of child diseases and 49 medical employees pediatricians - have been trained on medical treatment of acute respiratory diseases and diarrhea in 7 regions (Absheron, Sumgait, Ismailly, Tovuz, Guba, Mingachevir and Ganja). At the same time, 1,500 posters on acute respiratory diseases and 1,500 posters on diarrhea have been published and distributed to all the regions of the country for public awareness. Monitoring of these diseases has been conducted in 20 regions of the country and public awareness measures have been implemented.

Preventing malaria and reducing malaria incidence

Monitoring of malaria has been conducted in 16 regions in order to prevent malaria and reduce its incidence. The relevant disinfection measures have been made against malaria transmitters in the Sabirabad region. 30 persons have been involved in training courses on malaria in 2 regions (Sabirabad and Bilasuvar) and information leaflets for increasing public awareness on malaria prevention have been published and distributed.

Reducing incidence of TB

In order to introduce and expand a new anti-TB strategy DOTS, an interagency coordination committee has been established with participation of the central executive bodies and donor organizations. The initiative was supported by

WHO and GTZ. 5-day seminars were held in 19 pilot regions for doctors and laboratory assistants. The medicine against TB was purchased from the Global Medicine Fund and distributed free of charge to 3,500 diseased persons. At the same time, international recommendations and training materials on combating TB have been translated and their simplified versions, adapted to the local conditions have been published. Advice on purchase, storage and distribution of drugs has been provided and a health education program delivered. In parallel, bacterioscopy has been adapted to the program, and information in line with the new strategy was prepared. Site visits were organised to 36 areas in 2003 and 20 new pilot areas were selected in order to expand the coverage of DOTS program. Medical employees participated in a number of regional conferences and seminars (in Georgia, Poland, Kyrgyzstan and etc.) to learn international experience of combating TB in 2003. The TB treatment clinic (consisting of 115 beds) in Bina prison was refurbished and provided with furniture and equipment through EU assistance.

Providing access to contraceptives from reliable supply systems

In order to provide the population with contraceptives from reliable suppliers, Reproductive Health and Family Planning Centers have been established in Saatly, Imishli, Khyzy, Bilasuvar and Sabirabad regions with support of the UNFPA. One centre has been reconstructed in Shaki and provided with equipment in Gusar, Gabala, Aghdash and Jalilabad. All these Centers were provided with brochures and contraceptives. 215 Obstetricians and gynecologists have attended relevant training courses. 1,100 Training materials on childlessness, family planning, tumors, were prepared for gynecologists and obstetricians and distributed among them and 6 training packages were prepared in 2003 through assistance of UNFPA.

Reducing iodine deficiency disorders and iron deficiency anemia

Equipment has been installed for iodization of the salt and iron fortification of flour through ADB assistance. 5 flour-producing plants in Absheron peninsula and 3 salt producing plants (2 in Baku and 1 in Nakhchivan) had this

equipment installed. A National conference on the Prevention of Malnutrition was held. The training courses on prevention of iron deficiency anemia were arranged for 120 educational and medical employees in 5 pilot regions (Aghjabadi, Saatly, Sabirabad, Bilasuvar and Imishli). Furthermore, the employees of 14 customs points were trained; 360 civil society representatives attended courses in 18 regions and cities. The Decree of September 27, 2003 was signed by the President of the Republic of Azerbaijan in order to ensure enforcement of the Law of the Republic of Azerbaijan "On Salt Iodization for Mass Prevention of the Iodine Deficiency Disorders" adopted in December 27, 2001.

Promoting healthy lifestyle and health education to prevent substance abuse (tobacco, alcohol, drugs) and reduce sexually transmitted infections and HIV/AIDS

A Commission for Combating AIDS and its Prevention was set up to promote health education in order to reduce potential health risks such as sexually transmitted diseases, including AIDS/HIV (Order, CM, 16.08.2003). According to the National Strategy Plan on Prevention of AIDS, approved by the CM on September 25, 2002 since July epidemiological observations have started to be carried out amongst people who take drugs through injections and women who deliver sex services. Thus, in the framework of this Plan, surveys have been conducted among 400 drug addicts (who participated voluntarily in the surveys) in Baku and Lankaran and 200 women delivering sex services in various regions. Their blood has been tested against HIV and virus hepatitis "C" at the Center for Combating AIDS. 12 regional laboratories were supplied with modern diagnostic equipment in 2003 for determining infections, 184,000 blood samples have been tested (1.9% of the whole population). Facilities have been made available for anonymous and free blood test for HIV for the urban and rural population. As a result of this, to date 6,588 anonymous calls were received and 264 people tested at the Center for Combating AIDS. This represents an increase in tests by 1.5.

The Center for Combating AIDS has presented 279 articles and interviews to raise the awareness of the population of HIV/AIDS. A mobile show and examination team (MPET) against AIDS has been established by the Center. The MPET is providing information against AIDS in the streets of Baku and Sumgait. Densely populated areas receive

information via audio and video equipment. The first caricature competition has been organized in the Republic on the following topics: "Azerbaijani caricaturists against AIDS!", "We love the life" and "Mutants are unable to kill mankind". The Government provided care for 56 people by defining them as disabled and allocating benefits to them. At the same time, the Head Employment Office has instructed all regional employment offices to provide unemployed people, who are infected with HIV with jobs.

Improving health information system

Preparation of the Azeri version of the international statistical classification on diseases and health problems continued last year and publication of the first and second volumes of the X review of the ICD was completed. Guidelines on the introduction of the new registration documents on birth, natal and prenatal mortalities have been prepared and published and 60 people provided with trainings. Trainings on the Health Information

System have been arranged in Sumgait, Absheron, Gobustan, Siyazan, Davachi, Khyzy, Imishli and Sabirabad regions and 80 health employees provided with relevant trainings.

Improving budget rationalization and financial management in health sector

As mentioned in labor market section of the previous chapter, monthly wages of the state-funded health employees (total number is app. 143,400), as fixed by the Single Tariff Scheme, have been increased 50% since the 1st of June of the same year according to the Order of the President of the Republic of Azerbaijan dated June 10, 2003. Thus, additional funds of 30.1 bln. AZM were allocated for 2003.

In order to improve budget rationalization and financial management, an international consulting company has been selected and preparation of a draft report covering the current system of financing Health and draft action plan has been produced within the framework of the WB IBTA project.

Social Protection System and Pension Reforms

Introduction

One of the basic strategic goals of the SPPRED is to carry out relevant reforms in existing social

protection system for more effective protection of vulnerable groups. The below-mentioned objectives have been set to achieve this goal:

- Creating a system of targeted social assistance;
- Reforming the pension and social insurance system;
- Improving the legislative framework;
- Social integration of the most vulnerable groups of the population.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Creating a system of targeted social assistance

To improve targeting of social policy and to replace privileges with benefits, non-tax privileges, covering 1.5 million persons of 25 categories, were abolished from January 1, 2002. The benefits were fixed for 10 categories and starting from January 1, 2003 monthly benefits were fixed for 7 more categories. Proposals to compensate veterans of the Karabakh War, (following the abolishment of non-tax privileges) have been prepared and

the number of people in this category, identified. These proposals have been agreed with relevant ministries and submitted to the CM.

In order to improve targeting of social policy, a "Draft Concept of Social Assistance Reform in the Republic of Azerbaijan" has been prepared and submitted to the CM. In addition, a process has been launched to analyze the structure of social assistance and other related social protection programs. This is undertaken within the framework of IBTA-2 project, financed by the WB in 2003. In addition, preparation of a Mid-term Social Assistance Strategy has been launched. At the same time pilot projects have been implemented in Guba region and Nizami district of Baku within the framework of the Project on Social Protection and

Pension Reforms in Azerbaijan” with technical assistance from the EU (TACIS Programme), in order to identify the income of the families receiving child benefit.

A Draft Law on Targeted State Social Assistance was recently prepared and submitted to the CM. At the same time, a working group was established within the Ministry of Labour and Social Protection (MLSP) in November 2003 in order to identify underprivileged groups. In addition, visits have been made to the Ukraine and Bulgaria for the staff of the local social protection centres of the MLSP so that they would get familiarized with the mechanisms of targeting social assistance.

Reforming the pension and social insurance system

Efforts are being made to speed up the pension reforms. This is done within the framework of the Decree on “Measures to Improve the State System of Pensions in the Republic of Azerbaijan” issued by the President of the Republic of Azerbaijan in August 4, 2003. Thus, separation of insurance and pension system from the state social assistance system was basically completed by the end of 2003. The functions of local offices of the MLSP on fixing pensions and benefits (added to the pensions), as well as financing, supervision and payment of pensions, have been fully transferred to the SSPF and changes to handle this have been introduced. In order to improve the speed of delivery of pensions and benefits added to pensions, work started last year to create facilities for transition to the card payment system of the pensions and benefits, through the banks in Baku and Sumgait. This will be completed by April 1, 2004; in the other towns and regional centres of the country this will be completed by the end of 2004. The tender process for selecting the banks to arrange pensions payment system by plastic cards through the ATMs has already been completed.

In line with the “Concept on reform of pension system in the Republic of Azerbaijan”, approved by the Resolution of the President of the Republic of Azerbaijan dated July 17, 2001, appropriate changes were made to the Law on “Social Insurance”. The revised version of the draft Law on “Pension Provision to Citizens” was prepared and relevant measures are being

taken to establish a system of individual accounts for those insured. To create this system, with full coverage of all the regions, a concept document was prepared in 2003, with technical assistance from the WB and relevant technical and economic estimates made. In line with the concept, a joint project of the WB and UNDP was launched in November 2003 to implement this system. A working group was established and there were visits to the Ukraine and Georgia for exchange of experience. A pilot project is currently being introduced in the Northern regions of the country (Absheron, Khyzy, Siyazan, Guba, Gusar, Khachmaz and Davachi regions) to create a system of individual accounts.

Pensions (for a total of 1,087,000 people), were increased in August 1, 2003. Additional funds of 89.4 bln. AZM were allocated from the state budget in 2003. The minimum wage level increased from 27,500 AZM to 45,000 AZM in September 1, 2003 and to 60,000 AZM from January 1, 2004.

Improving the legislative framework

Measures have been implemented for joining the European Social Charter. (This is within the framework of “the State Programme on introduction of the norms stipulated in the European Social Charter” approved by the Resolution of the President of the Republic of Azerbaijan of April 7, 2003) Thus, the Charter's articles, to be ratified, have been analysed comprehensively and the national regulatory and legislative documents related to monitoring and improvement of the legal framework of the labour and social legislation has been adjusted to the norms of the European Social Charter. This includes remuneration of labour, labour relations, employment, migration, social security and social assistance. Relevant proposals have been submitted to the Milli Majlis and 18 articles out of 31 of the European Social Charter (1,4,5-9,11,14,16,20-22,24,26-29) have been ratified by the Milli Majlis in January 2004.

Legal-normative documents for determining the minimum living standards were submitted to the CM in 2003. In addition, proposals to adjust the minimum wage level on a step by step basis, to the minimum living standards were submitted for consideration. A new Law on “Minimum Living Standards” of the Republic of Azerbaijan has now been drafted.

Social integration of the most vulnerable groups of the population

Repairs were carried out to a rest-home for the War and Labour disabled in Bilgah, boarding house No 7 in Saray, boarding school No 9 in Buzovna, boarding house No 1 in Shamakhy and boarding house No3 in Mardakan, using both domestic funds and various types of assistance.

For the treatment of the disabled, several medical centres are now functioning. These are the Medical Treatment Centre with 250 places in Shaghan settlement, Ganja branch of Prosthetic and Orthopedic Rehabilitation Centre, and the Medical Treatment Centre for the Disabled of the War.. Construction of the Child Rehabilitation Centre in Baku City, rehabilitation centres for the disabled with 20 beds in Nakhchivan and with 14 beds in Ali-Bairamly, have been completed.

In line with the Law of the Republic of Azerbaijan "On social service to the elderly people", a special uniform for the social employees and rules of money compensation for their transport costs were approved under the relevant Resolution issued by the CM in February 6, 2003. At the present time, Heads of 74 Regional Departments under the MLSP in 74 regions and cities, 38 senior specialists and 1,621 social employees provide 15,289 lone elderly citizens and disabled persons with social services in their houses, at least twice a week. At the same time in the first half-year of 2003, 509 mln. AZM was spent as a one off payment to 610 people, for amongst other things, medical treatment, repair of apartments and arrangement of mourning ceremonies. All these measures aim to improve social protection of the disabled.

The draft law "On targeting state social assistance" was prepared and submitted to the CM within the last period of time. At the same time the relevant working group was established under the MLSP since November 2003 in order to identify underprivileged part of the population. In addition to it, visits have been organized to the Ukraine and Bulgaria for the staff of the local social protection centers of the MLSP so that they would get familiarized with the targeting mechanisms of social assistance.

The work towards preparation of rehabilitation consisting of medical, social and professional rehabilitation is currently being implemented by the MLSP in order to rehabilitate the social status of the disabled, ensure their financial independence and their re-integration to society.

Instructions have been prepared by the Institute of Aesthetics and approved for installing equipment in transport and public places, that will enable improvements in the life and working conditions for the disabled.

Blocks of flats are being built to cover the needs of the disabled in apartments (mainly, disabled of the Karabakh war, the disabled of 20 January Tragedy and the families of the martyrs). So far, 15 blocks of flats and 140 individual apartments have been built and more than 720 disabled have been provided with apartments. Thus, block of flats with 18 apartments in Ali-Bairamly city, block of flats with 27 apartments in Ismailly region, block of flats with 36 apartments in Sumgayit and block of flats with 48 apartments in Ganja have been built and all these blocks of flats have been made available for use by the disabled. A block of flats with 36 apartments is being constructed in Sabunchi District and the construction is expected to be completed in 2004.

Preparations are being made to create a single system of information for the disabled. This will cover many issues pertinent to the disabled and their families., the initial sources of information on the disabled and families of the martyrs, ways to obtain information, as well as, structure of information on social status of the disabled have been identified. A special questionnaire has been prepared with 73 questions. Furthermore, a database, general guidelines on how its software works, including guidelines for providing complete and accurate information, have been designed and relevant software has been prepared. Information on about 270,000 registered disabled, as well as, on privileges and assistance that they receive, information on about 30,000 families with 2 and more disabled has been collected, systematized and included in the database. A website of the disabled has been designed and launched to identify the disabled, who need more assistance, who are intellectual, craftsmen and to help disabled people to find jobs, set up unions of mutual interest and covering various measures and activities related to the boarding houses.

Refugees and IDPs

Introduction

One of the strategic goals of the SPPRED is to

improve living conditions and opportunities of refugees and IDPs. With a view to achieving this goal the following objectives have been set:

- Returning the IDPs to their permanent places of residence;
- Improving the social living conditions of refugees with no permanent place of residence and IDPs in the worst living conditions;
- Upgrading the infrastructure in IDP camps consisting of prefab houses;
- Addressing the employment problems of IDPs;
- Providing education to IDPs' children;
- Improving health care services to refugees and IDPs;
- Improving food provision to IDPs;
- Ensuring financial transparency through explicit budget allocations.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Improving the social living conditions of refugees and IDPs

826 families of refugees driven out from their native lands as a result of Armenian aggression have been provided with houses (see the table below) and also 320 houses for refugees, construction of which were unfinished since 1995 has been completed:

Rayon/city	Number of housed families
Baku	218
Shamkir	126
Nakhchivan AR	101
Goranboy	364
Aghstafa	17
Total	826

In addition, construction of a settlement for 50 families in Mehtabad settlement, a settlement with 65 houses in the Yevlakh region and 51 dwelling houses in the Ismailly region has started and it is planned to complete these constructions in the I quarter of 2004.

27 new settlements have been set up (Aghdam - 4; Fuzuli - 10; Bilasuvar 6) for housing of 5,081 IDP families (22,841 persons) settled in tent camps and at the railway wagons. Necessary infrastructure has been created in all the settlements. Rehabilitation of 17 houses has been launched in the Gadabay region within the framework of rehabilitation of 1000 houses damaged during the war.

Resettlement of 412 IDP families (1,895 persons) from several public schools and other

public buildings in Mingachevir to new settlements with the credits allocated by the Asian Development Bank is underway and construction work is envisaged to be completed in the first quarter of 2004.

25 micro-projects have been implemented to repair 25 units, which are temporarily densely inhabited by the refugee and IDPs' families in Baku, Sumgait, Mingachevir and Gabala cities. Micro-projects have been financed with soft credits allocated by the WB and with contributions made by communities.

Upgrading the infrastructure in IDP camps consisting of prefab houses

For the purpose of improving the infrastructure in the settlements consisting of prefabs, inhabited by the IDPs, the WB, Islamic Development Bank (IsDB), EU and other donor agencies have jointly implemented the below-mentioned measures:

- 40,000 metres of cable unfit for operation and 83,000 metres of electricity lines have been replaced and 70 power transformers replaced with new ones;
- 56 water pumps have been installed, 308 artesian wells rehabilitated in Aghdam, Tartar, Goranboy and Aghjabadi regions and 153 extra wells are being rehabilitated using the saved funds;
- Khyndyrystan pumping-station and 18 km length of the pressure pipeline have been built in Aghdam region, Gazakhlar pumping-station and 7.2 km length of the pressure pipeline built in Fuzuli region. 2,000 Families benefited from this;
- 74.2 km of the roads in the settlement have been repaired;

- The kerosene supplies to 92,000 IDP families in autumn and winter seasons is carried out by Executive Powers of the Regions;
- 3.27 km of the effluent disposal lines have been rehabilitated in Baku and 10.05 km of collector and drainage network rehabilitated in Beylagan region;
- 6.35 km distribution pipelines have been installed in Baku and Gazakh regions and 4 units of gas control points have been installed;
- Restoration of the energy supply is being conducted in Tartar, Goranboy, Aghjabadi, Gazakh and Gadabay regions and it is planned to be completed in the first quarter of the next year. As a result of this, energy supplies to 120,000 people will be improved.

Addressing the employment problems of IDPs

The work aimed at solution of employment problems of the IDPs resettled in new settlements has been launched: it includes allocation of the plots of land (1ha) to 5,081 families for farming purposes and grant assistance (1 mln. AZM) and for this purpose 4909 mln. AZM (covering about 5,000 families) have been spent in 2003. Furthermore, with a view to provide soft loans to the farms established by IDPs, 593 families have been given micro-credits as legal entities and 4920 persons as private individuals from the WB.

Providing education to IDPs' children

15 schools and 18 pre-school institutions have been built at the newly established settlements and provided with necessary equipment.

IDP and refugee students studying on a paid basis in the State Universities and schools of general education have been exempted from tuition fees starting from academic year of 2002-2003 till the end of their education period according to relevant Order issued by President of the Republic of Azerbaijan in August 4, 2003. This state support has been provided to IDP and refugee students, taking into account social and economic status of their families, in order to enable them to continue their education in the Universities and schools of vocational education.

Improving health care services to refugees and IDPs

15 new health institutions (13 health stations, 2 out-patient facilities) have been built at the newly established settlements and provided with necessary equipment.

Improving food provision to IDPs

Replacement of the privileges provided to the refugees and IDPs in 68 regions of the country with benefits has started and IDPs are currently provided with monthly food benefits. At the same time, monthly food assistance is rendered to 136,000 IDPs within the framework of the United Nations World Food Program.

214,258 IDPs were deprived of food assistance rendered before by the international humanitarian organizations in 50 regions of the country because these organizations had suspended their activity over the last years. The process of providing the above-mentioned IDPs with necessary monthly products is currently being implemented with the funds allocated from the SOFAR.

Chapter 5: Regional Policy and Infrastructure Development

Public investments in utilities and infrastructure

Introduction

As is stated in SPPRED, development of infrastructure in the regions will give an impetus

- Rehabilitating transport infrastructure
- Rehabilitating water and sewerage systems
- Developing melioration and irrigation sector
- Developing energy infrastructure

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Rehabilitating transport infrastructure

Baku-Alat highway funded by the State Budget and Alat-Gazimammad highway funded by Kuwait Fund and the IsDB are under construction and are expected to be completed in 2004. In addition, negotiations related to financing the construction of Gazimammad-Kurdamir, Kurdamir-Ujar, Ujar-Yevlakh, Yevlakh-Ganja, Ganja-Gazakh, Alat-Astara and Gusar-Samur parts of the highway system have been concluded. Their construction are expected to be started in 2004. Within the rural roads development project the relevant measures have been implemented and additional 1.2 mln. USD including new components has been approved from the remaining resources. At the same time, Trans-Caucasus railway rehabilitation has been continued.

Reconstruction of Nakhchivan airport has been started since 2003 and expected to be completed in 2004. The State Budget for 2004 envisages allocating additional resources of 15 bln. AZM.

Construction of "Hazi Aslanov" underground station has been completed in the first quarter of 2003 through support of EU. Fleet of underground carriages has been repaired in 2003 and 2004 State Budget also envisages relevant resources in this regard.

Rehabilitating water and sewerage systems

Great Baku water system rehabilitation is

to the development of non-oil sector and regions themselves. In this regard following objectives have been set in the Policy Matrix of the Strategy:

nearly completed and WB has allocated additional funds of 12 mln. USD to eliminate impact of earthquake on the system.

Reconstruction of Imishli region water supply system has been completed through KfW resources of 14.8 mln. euro and saved resources have been directed to improve water supply systems of Ganja and Shaki.

Reconstruction of Baku sewerage system has been started since 2003 and is expected to be continued in 2004 as well.

Developing melioration and irrigation sector

Within the WB project on reconstruction and rehabilitation of irrigation and drainage infrastructure system, rehabilitation of Samur main headwork and construction of siphon at an intersection of main Mil-Mughan Collector and Araz River have been completed in 2003.

A Memorandum of Understanding on financing the construction of Valvalachay-Takhtakorpu section of Samur-Absheron canal has been signed with IsDB, SFD and OPEC Fund in 2003.

Following the construction of the first part of Khanarkh canal (37.5 km) in 2003, water supply of 18,500 ha of area in Gusar and Khachmaz regions has been improved. Construction of the second part of the canal has also started and 1.8 bln. AZM have been allocated in this regard.

Construction of 4.7 km of reinforced concrete canal line, 2 bridges, hydraulic units and 950 m of tunnel have completed as well as construction of Vaykhir water reservoir has been started in 2003 within the framework of Shamkir-Mashin canal construction. 60 bln. AZM is envisaged to allocate from the 2004 State Budget to continue the

construction of the Vaykhir water reservoir also in this year.

Developing energy infrastructure

Report on development of energy infrastructure including development status of

BTC pipeline, the South Caucasus Gas Pipeline, Gas Pipeline from Garadagh to Shimal Power Plant, Garadagh compressor pump, II Unit of Shimal Power Plant, reconstruction of the 1st and 8th units of AzDRES, as well as second stage of power transmission sector reconstruction is given in the energy section of the chapter 3.

Agriculture, irrigation system, land protection and water resources

Introduction

This sector is of great importance for ensuring regional development. A stable development

of non-oil sector in rural areas will be achieved through implementation of the objectives stipulated in the SPPRED. The objectives are the following:

- Preparing Rural Development Strategy;
- Institutional reform of agrarian institutions;
- Agricultural development and access to credit facilities;
- Regulating credit provision, insurance policy and customs duties for rural areas;
- Developing mountain areas;
- Protecting land and soil quality;
- Regulating pasture shares;
- Strengthening national veterinary and plant control services;
- Increasing farmers' managerial and technical skills;
- Capacity development in applied agrarian science;
- Improving irrigation;
- Flood protection;
- Improving the provision of nitric and phosphoric fertilizers;
- Developing whole sale, agro-business and market access systems.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Preparing Rural Development Strategy

In order to ensure sustainable and integrated development of the rural areas the long-term development strategy of agriculture has been prepared and submitted to the CM in 2003.

Ensuring access to credit facilities

4,629 farmers has received 40.9 bln. AZM credit resources in 2003. Additionally 329 Borrowers Groups (total number of members - 6,045) have received 94 bln. AZM as well as 217.6 mln. AZM were allocated to the credit unions in 2003.

In order to develop the land market that could further develop loan collateral system in the regions 10 regional land registration centres have been set up and 1,427 land users provided with the certificate of the right of its temporary use.

Strengthening national veterinary and plant control services

400 mln. AZM were allocated in 2002 and 150 mln. AZM in 2003 for reconstruction and repair of Khanlar biological enterprise. A part of repair work at the vaccine and serum workshops has been completed and repair and construction work is currently under way.

9.5 bln. AZM were allocated for preventive measures against infections through which biological and other preventive medicines were purchased in 2003. 9.1 bln. AZM are expected to be spent in this regard in 2004.

In order to improve epizootic and phitosanitary supervision measures in the public health and manufacturing, the relevant equipment has been installed at the Plants Quarantine Examination Laboratory through the assistance by TIKa in 2003. It is envisaged to build new laboratories at Astara and Samur border points.

Improving irrigation

522 Water Users Associations have been established. The associations cover 622,000 ha of the irrigated plots of land and render services to 380,000 legal entities and individuals. However, the difficulties in money collection do not enable them to increase their opportunities. Since the late 2003 new project has been funded by WB soft loans on irrigation-distributing system and improvement its management regarding to repair and construction of in-farm irrigation units through the public funds.

Flood protection

A Memorandum of Understanding on financing the construction of protection dams for flood prevention through ADB soft loan was signed in December, 2003.

Animal husbandry and poultry

In order to improve cattle-breeding services 5,000 heads of cattle were brought to the country from abroad in 2003; 2,500 heads of cattle were sold by the state to private stock-breeding farms. 5,500 heads of cow and heifers were artificially inseminated with seeds of the high quality breed.

A meat processing line has been launched at "Qafqaz" tinned food factory of Khachmaz region and 50 persons were provided with jobs. "Milk Pro" Ltd company was the first to get an international quality certificate ISO-9001 among the producers in our country. The daily milk processing level has been brought up to 50 tons.

16 chicken poultry farms are currently operating in the country. Imishli-Broiler Ltd with the capacity of 200 tons of chicken meat started operating in 2003 and 150 persons were provided with jobs.

Increasing farmers' managerial and technical skills

207 types of booklets, leaflets, articles and other materials were published and distributed

among 103,500 landowners and farmers by the Information Service Group. More than 250 types of booklets, leaflets and articles were issued at the Regional Advisory Centres and 375,000 landowners and farmers benefited from them. 380,000 farmers and landowners received information on market prices on a regular basis and video films about the experience of advanced entrepreneurs were prepared and demonstrated.

More than 20 information days were held in the regions covered by Nakhchivan and Ganja advisory centres. The farmers and landowners of Guba-Khachmaz, Lankaran-Astara, Mughan-Salyan and Ganja-Gazakh regions were provided with addresses of the companies selling the mineral fertilizers and plant protection chemicals. They were also provided with knowledge on setting norms for using the fertilizers, new plants protection chemicals and the rules of their use; visual demonstrations were arranged. Furthermore, tobacco producers of Gabala, Shaki, Zagatala and the neighbouring regions were provided with information concerning the new sorts of tobacco, arranging seed-farming, planting of the seedlings using a new method and ways of caring for them.

A workshop-training was held jointly with the farmers to meet the needs of the private sector in agricultural machinery. Over the last period of time, using the grant of the Japanese Government, 46 combine harvesters were purchased from German company "Glaas" and 22 from Finland. These combine harvesters were given for lease to 66 farmers in 33 regions. The seminar was organized last year together with Russian "Rostselmash" Open Joint-Stock Company. Furthermore, a seedling planting machine produced in Turkey has been purchased to plant tobacco and other vegetable seedlings. The seedling planting machine was given to Gabala Tobacco Enterprise.

In order to address the needs of farmers, a joint vegetable seed-farm has been set up in Lankaran to produce high-quality and seeds at affordable price. It was implemented jointly with the TIKA. An Azerbaijani-Turkish seed-growing research initiative (joint-venture) started operating in Khachmaz.

Environmental safety

Introduction

General condition of environmental safety of the country directly depends on its economic

and social status. The following objectives have been identified to solve the environmental problem within the framework of the Program:

- Air;
- Water and sewerage;
- The Caspian Sea;
- Soil;
- Fauna and Flora (Biodiversity);
- Studying the opportunities for expanding the introduction of alternative energy sources;
- Radioactive pollution;
- Institutional development.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Environmental protection

A National Caspian Action Plan has been developed to strengthen environmental protection of the Caspian Sea within the framework of CEP with technical assistance of the UNDP, UNEP, WB, EU TACIS Program and Global Environmental Facility (GEF). This plan has been submitted to the CM in November, 2003.

Construction of a fence of 25 km length for environmental protection of Jeyranbatan reservoir has been completed; a new forest area planted in 70 ha of area and currently, improvements and maintenance work is being carried out in 1,275 ha of forest area in that territory.

Preparation of relevant project papers (feasibility study) on reconstruction and expansion of purifying facilities in Baku and Sumgait, including, the sewerage system in Sumgait, has been completed.

Radioactive pollution

A Polygon for toxic wastes has been constructed in 50 ha of area of the Absheron district in order to remove the mercury waste of the Surface-Active Substances Plant; the road leading to the Polygon has been covered with crushed stone-gravels; the bridge in the part of the road crossing over Samur-Absheron channel reconstructed and preparatory work for putting the Polygon into operation is currently underway. This project has been

implemented within the framework of the Ecologically Urgent Investment Projects (EUIP) funded by WB.

Pilot project on oil sludge clean-up component of the EUIP, has been implemented at a Polygon near Buzovna-Mashtagha settlement This project dealt with the selection of options for re-cultivation of 1 ha of area of oil polluted land in the territory. In the Absheron region, approximately 30 ha of area has been selected for treatment of pollution. The tender procedures for treating the area is about to be completed.

Work related to reconstruction and expansion of isotope center for storage and treatment of radioactive waste, as well as decontamination of radioactive wastes in Ramany and New-Surakhany plants is being continued.

Biodiversity

For the purpose of protecting biodiversity and ensuring ecological balance, forests have been planted by a sowing method in 275.5 ha area and with perennial plants in 1,279.5 ha area on the banks of the Kur and Araz rivers. Appropriate documents are being prepared to create biological stations and nurseries for rare and endangered species of animals and plants. At the same time, according to the decrees issued by the President of the Republic of Azerbaijan, Ordubad, Shahbuz reserves and Gakh State Natural Protected Area have been established. The areas of Turyanchay, Pirculu, Ismailly, Ilisu and Garayazi reserves have been expanded. Presently, preparatory work related to establishment of Shahdagh, Ordubad, Samur-Yalama and Hirkan national parks, as well as Talysh reserve and expansion of Goy-Gol, Absheron, and Altyaghaj reserves is going on. Neftchala sturgeon hatchery with capacity of 15

mIn. sturgeons, has been put into operation following the preparatory work enabling protection of traditional sturgeon hatchery areas in the Kur and Araz rivers. These areas will have the status of official protected areas within the framework of the EUIP.

Institutional development

Within the MENR a National Monitoring Department has started operating to create a system of monitoring air pollutants from

transport and other sources. An Agency for Management of Toxic Wastes has also been established for effective waste management. Provision of regional laboratories with equipment within the framework of institutional development has been continued and 80% of the work related to preparation of 1: 500 000 scale map that will reflect dislocation of organizations subordinated to the MENR by areas, physical-geographical information about regions completed towards improving geographical-information systems.

Tourism

Introduction

Geographical location of Azerbaijan promises wide perspectives for development of tourism. Development of this sector will give an impetus

to the development of the regions and the opportunities for employment in the regions will increase. The below-mentioned objectives have been determined for the development of tourism within the framework of the Programme:

- Creating an enabling investment environment for development of tourist businesses;
- Improving the advertising and publicity in the tourism sector;
- Training and upgrading in tourism skills;
- Development of tourism in regions

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Creating and enabling investment environment for development of tourism business

Licensing period for companies engaged in tourist activities has been prolonged from 2 up to 5 years and license fee has been reduced from 8 mln. AZM to 2.75 mln. AZM. The price for single entry visa for tourists was reduced from USD 40 to USD 20. These initiatives are aimed at reducing poverty and speeding up new job creation and development of tourism in the regions. As a result of this the number of companies engaged in tourism was 100 as of beginning of 2004.

Improving the advertising and publicity in the sector

An agreement was signed with UNDP to support the establishment of tourism information centers for publicity and coordination in Baku, Shaki, Ganja, Lankaran, Shamakhy, Nakhchivan, Guba and Khachmaz. According to the Agreement, these centers will

be established from the beginning of 2004. Besides, it is envisaged to establish Tourism Information Center in Shaki and Lahij and conduct relevant trainings through the Center in 2004-2005 within the framework of Trans-Caucasus Tourism Initiative with financial support of the Swiss Government.

Training and upgrading in tourism skills

The following specializations have been set up to prepare tourism specialists and improve qualifications: "Sport tourism" at the Azerbaijan State Academy on Physical Training and Sport; "Hotel management", "Tourism management" at Baku Physical Training and Tourism College.

Development of tourism in regions

A Project and business plan have been designed towards developing ecotourism and rural tourism in the regions (Gusar, Guba, Shamakhy, Ismayilly, Lankaran, Ganja, Khyzy, Lerik, Masally, Zagatala, Khachmaz, Gazakh, Gabala, Oghuz and Nakhchivan) and submitted to the interested foreign investors.

Chapter 6: Institutional Reforms and Capacity Building

Judicial and legal reforms

Introduction

As part of SPPRED, juridical and legal reforms are considered very important to reducing

poverty in the country. The following objectives have been set to achieve the goal:

- Increasing the awareness of the poor regarding their civil rights;
- Upgrading and capacity building of legal profession;
- Increasing legal expertise of laws;
- Improving legal awareness and living conditions of the accused and prisoners and securing their health care rights;
- Ensuring the re-integration and adaptation of prisoners to the society;
- Ensuring equal access to legal institutions.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Increasing the awareness of the poor regarding their civil rights

Within the framework of “Legal Assistance Service” project, which was implemented with OXFAM's support, 23 information and consulting centres were set up in Barda, Aghdam, Aghjabadi, Tartar, Yevlakh and Goranboy regions, in Mingachevir and Ganja cities. These centres were provided with all the necessary equipment. The centres were set up in order to provide high quality legal advice to the poor population and raise awareness of their legal rights. 1,100-1,300 clients per month are currently benefiting from the legal assistance service within the framework of the project.

Upgrading and capacity building of legal profession

A number of important measures were implemented in 2003 within the framework of EU TACIS funded project “Improvement and reform of the judicial system in the Republic of Azerbaijan”. The project is aimed at organizing relevant training seminars for the employees of the judicial system, improving the court administrative system, legal enlightenment of the population and commenting on the laws. Thus, training seminars on Criminal Code and Civil Code have been organized in Baku and the northern regions of the country with participation of judges and public prosecutors. The conferences on “Legal and judicial reforms in Azerbaijan” and the “Human rights

protection” as well as lectures on Human Rights Convention, independence of the judicial system, public prosecutors in Germany and other relevant subjects have been organized for approximately 120 participants. Assessment of quantitative and qualitative needs of 21 courts has been implemented to improve the court administration within the framework of the Project. Their provision with equipment and legal literature, as well as preparation of the training module for the administrative staff have started. Besides, preparation of the electronic catalogue-registration-search system of the library of the Legal Training Centre has been launched and the public awareness strategy has been prepared within the framework of the project.

The seminars “How the comments should be written?”, which concerned interpretation of laws have been organized; a concept paper identifying the rules of writing comments has been prepared; a working group on Commitments of the Civil Code and Criminal Code has been established and start has been made on writing comments. A study trip to Germany has been organized within the framework of the project for the delegation consisting of representatives of the Ministry of Justice, Main Prosecutor's Office and judges. The aim of the trip is to get familiarized with the experience of judicial system in Germany.

In order to strengthen the physical and technical infrastructure of the Legal Training Centre major repairs were carried out to the building and the working rooms. The rooms were provided with computers and other necessary equipment and access to the internet was created in 2003. The Centre held training courses for 417 judges, court and juridical employees with consideration of gender equality. The training courses were also

held for the members of municipalities to explain the legislation, legal awareness and

other relevant issues.

Decentralization (Municipalities)

Introduction

Decentralization was started through creation of municipalities in the country in 1999. Municipalities are recent democratic structures in Azerbaijan. As an important aspect of the democratization process in Azerbaijan, municipalities play a key role in facilitating the articulation of local and community aspirations regarding poverty reduction. The role of municipalities therefore, is crucial in the successful implementation of SPPRED and sustainable regional development. Municipal capacity needs to be strengthened to enable them to play an effective role in the implementation of the SPPRED and Public Investment Plans. The following measures were taken to encourage active involvement of municipalities.

Subsidies from the State Budget

Though the State Budget for 2003 envisaged allocating subsidies of 25 billion AZM to Municipalities, they received only 5 billion AZM of this amount. It is also envisaged to allocate subsidies of 10 bln. AZM to the budgets of municipalities in 2004.

Legislative framework

Law “about Approval of the Charter on Tax Body of Municipalities” of the Republic of Azerbaijan came into force following the Decree issued by the President of the Republic of Azerbaijan in October 23, 2003. Currently tax bodies are being established within municipalities.

Proposals have been prepared to develop an action plan for increasing local budget revenues in order to decrease dependence of local self-governing organizations from the State Budget.

Capacity building of municipalities

Center Towards Civil Society published a book on “Financing and Budget Process of Municipalities” and distributed it among

municipalities with financial support from the Open Society Institute Support Fund in order to improve financial opportunities of municipalities and train them on rules of preparing the local budget. At the same time, Training on Financing and Budget Process of Municipalities has been delivered to 16 municipalities in Baku and Absheron.

Relevant work is being implemented with a view to ensure close involvement of municipalities in poverty reduction. Thus municipalities were closely involved in the Regional Workshops, held by the SPPRED Secretariat in 6 regions (Guba, Nakhchivan, Shaki, Masally, Shamakhy, and Ganja) in order to get views of the civil society about poverty and its reasons in the country. The above-mentioned Workshops were supported by technical assistance from the United States Agency for International Development, United Nations Development Programme, Asian Development Bank and the Government of Germany. During the Workshops, municipalities were informed about the contribution they can make to poverty reduction and their problems, views and comments were received.

Training has been delivered in Aghstafa, Tovuz, Gadabay, Khyzy, Siyazan and Davachi regions with financial support from the GTZ in order to build a capacity and to empower municipalities. This training consequently benefited to heads of about 210 municipalities. As well as, two-daily workshop has been organized for members of municipalities in each of Khyzy, Siyazan and Davachi regions. The workshops, which were supported by Save the Children, were devoted to elucidation of the “Charter on Self-governance Coordinating Councils in the Republic of Azerbaijan” and possible advantages that municipalities may derive from this Charter.

Activity area of municipalities

There are 2,669 municipalities in the country and the budget expenditure of municipalities for the last year were mainly used to support the following areas: repair of roads within residential areas, repair of schools, health centers, provision of schools with fuel, single financial aid to underprivileged families, assistance in maintenance of household and utilities,

environmental protection, supply with electric and heating power, covering of losses in bills for gas, transport, water and sewerage.

New Rural Investment Project

A project is being prepared by the Agency for Support to Agricultural Development through

credits allocated by the WB. The Project is aimed at reducing poverty and encouraging community development in the rural areas. The Project will be launched in 2004 and cover municipalities based in 30 regions.

Poverty Monitoring

Introduction

For the purpose of evaluating the impact of the poverty reduction measures envisaged in the

SPPRED, it is planned to carry out poverty monitoring in the country on a regular basis. The following objectives have been set to achieve the goal:

- Increasing capacity for monitoring poverty in the country;
- Preparing annual database from HBS for use by PMU, other domestic experts, and international organizations;
- Integrating information from the Food Security Information System (FSIS) Unit at the SSC into the regular poverty monitoring carried out at the PMU in coordination with inter-ministerial working group on food security;
- Publishing and improving poverty indicators on an annual basis;
- Using the results from the periodic Multiple Indicators Cluster Surveys to monitor health and education indicators and the links between these and income poverty in the country;
- Carrying out a regular LFS to monitor employment in the formal and informal sectors of the economy;
- Carrying out an annual survey of the refugees and IDPs to monitor changes in their living conditions;
- Developing gender disaggregated statistics and publication of annual bulletin with focus on gender disaggregated statistics derived from survey and administrative data;
- Carrying out new surveys on gender and poverty using qualitative and quantitative methods;
- Carrying out regular qualitative/participatory work on population's perceptions of the definition of and reasons for poverty in the country;
- Monitoring and improving the legislative base on minimum living standard.

The implementation status of the policy measures within the above mentioned objectives in 2003 is as follows:

Increasing capacity for monitoring poverty

PMU was set up under the SPPRED Secretariat (with financial and technical support from the UNDP) in order to improve monitoring of different aspects of living standards in the country. Enhancing capacity in this area is considered vital in order to be able to monitor the future impact of the policy measures being taken under SPPRED. The PMU began its activities in February 2003, and since then has been working closely with the SSC and the SWGs in order to identify and define the gaps in the country's data collection system, and to make recommendations on how they can be filled in order to improve monitoring of living standards.

Efforts have been made to build up capacity in poverty analysis. The staff of the PMU, the SSC

and also various research institutes in the country have benefited from a number of training initiatives which were organized in 2003. These included a training course on Poverty Measurement and Diagnostics, organized by the WB Institute, which provided a mix of lectures and hands-on training in the use of SPSS for analyzing survey data. The EU FSP together with the Food and Agriculture Organization (FAO) organized a training seminar on Monitoring of Food Security. The WB supported the SSC in the preparation of the HBS annual data base for outside users, and as part of a regional initiative, provided supervision and support to local researchers in the use of the data base for analyzing various aspects of poverty.

Preparing annual database from HBS for use

The SSC has taken measures to further improve data collection through its HBS. This survey was completely re-designed in 2001, and since then has continued to be improved with technical assistance from the WB and ADB. The SSC published bulletins with results from the HBS in

table form and also provided access to interested parties to them, by making this available on CD-Rom, and placing it on the SSC's website.

Integration of information from the FSIS Unit at the SSC into the regular poverty monitoring

The SSC is also cooperating with the EU FSP in carrying out surveys on vulnerability to food security and evaluating of food security in the country. The results of this work are published in quarterly bulletins.

Publishing and improving poverty indicators on an annual basis

Over the past year, the PMU has worked on creating a data base using those living standard indicators currently available in the country, and documenting their strengths and limitations. The PMU experts have also taken a lead in examining the possible options for country-specific MDG targets and indicators, and in establishing poverty estimates for the country using the SSC's HBS data.

Carrying out a regular LFS to monitor employment in the formal and informal sectors of the economy

As was mentioned in the labour market and employment section, a national labour force survey was carried out for the first time in 2003 with technical assistance from the International Labour Office (ILO) and UNDP. The SSC is currently preparing bulletins with summaries of the survey results.

Carrying out an annual survey of the refugees and IDPs to monitor changes in their living conditions

A survey was carried out during September-December 2003 among the refugees and IDPs in Saatly, Sabirabad, Bilasuvar and Barda regions to analyze their current living conditions. The report is expected to be published by the end of first quarter of 2004.

Developing gender disaggregated statistics and publication of annual bulletin with focus on gender disaggregated statistics derived from survey and

administrative data

The SSC has also improved the content and layout of its annual bulletin "Women and Men in Azerbaijan". This represents a further improvement in the development of gender-disaggregated statistics, and it is planned to publish such a bulletin annually. Another annual bulletin "Children in Azerbaijan-2003" has also been published.

Carrying out regular qualitative/participatory work on population's perceptions of the definition of and reasons for poverty in the country

It is recognized that quantitative indicators are not always sufficient to build up a full picture of the extent and causes of poverty, and for this reason a qualitative survey was carried out in the summer of 2003. The survey was conducted under the supervision of the PMU within the SPPRED Secretariat, and with support from the UNDP. Focus group discussions and individual interviews were carried out in 11 regions of Azerbaijan (Sumgait, Guba, Gusar, Shaki, Gabala, Jalilabad, Yardimli, Mingachevir, Barda, Imishli, Aghstafa). The results of the survey are being used by the PMU to supplement the quantitative information available on living standards, and to make informed recommendations on how to improve the questionnaires of the HBS.

As part of the participatory approach followed by the SPPRED Secretariat, a series of regional workshops were organized in 6 regions of the country (Guba, Nakhchivan, Shaki, Masally, Ganja and Shamakhy). These workshops were organized with technical assistance from the USAID, UNDP, ADB and German Government. The purpose of the workshops is to listen to the perceptions of the local population on the reasons for poverty and their proposals for improving local living standards. The workshops also provide a forum for discussing the purpose and effect of the policy measures being introduced under SPPRED. Discussions during the workshops are very lively, and a report summarizing the discussions is available from the SPPRED Secretariat.

Monitoring and improving the legislative base on minimum living standard

Work on improving the legislative basis for the country's minimum subsistence level has begun. A

draft law on the “Minimum Subsistence Level”, with proposals for a clear methodology to be used for the calculation of the minimum subsistence level in the Republic of Azerbaijan has been submitted to the CM. A proposal to make the minimum wage equal to the minimum subsistence level has also been submitted to the CM.

Chapter 7: The Participatory Process

Introduction

The SPPRED formulation phase was characterised by a participatory approach. This approach had the aim of encouraging and facilitating the involvement of decision makers, civil society, and the international donor community in concentrated efforts to combat poverty.

Activities were undertaken in 2003 to re-launch an extensive and inclusive participatory process, to be continued throughout the SPPRED implementation stage. The participatory approach has been vital in taking forward the process of consultation with civil society. It has helped to inform policy makers of the actual and potential impact of poverty reduction measures at the local level, and has raised awareness among broad sections of the community on the aims of SPPRED and how they can play an effective role in the implementation period.

The broad objectives of the participatory process in the implementation period can be summarized as:

- To continue the dialogue with the civil society
- To increase public awareness of the SPPRED implementation process;
- To exchange views concerning the impact of the measures set out in the Policy Matrix on improving the living standards of the population;
- To make policy recommendations for changes in the policy measures and actions based on the proposals received from members of civil society;
- To strengthen the poverty reduction strategy by improved prioritization based on information obtained from various groups of civil society;
- To ensure that the most vulnerable groups are involved and consulted in the implementation process.

The activities undertaken in 2003 to achieve these six objectives took various forms. Firstly, a series of regional workshops were held in six different regions of the Republic. These built on

the positive experience in this type of activity in the formulation period, when workshops were held in five regions⁵⁶. These workshops provide a forum where government officials and civil society representatives can exchange views on the measures most appropriate for having a poverty impact at the national and local level. Representatives from the national government meet with local government officials, NGOs, municipalities and members of the local communities. The local population has the chance to gain more information on SPPRED's aims and progress, but also to put forward their own perceptions on the priorities for impacting living standards in their specific region.

The second type of activity took the form of discussions with representatives of the mass media, in order to develop their understanding of SPPRED and to widen the dissemination of information by using the media. These activities have served to raise public awareness of SPPRED, but also to open up the debate on poverty and the ways to combat it.

Thirdly, a series of activities were undertaken, often in partnership with NGO's, aimed at promoting the participation of certain target groups. These included various training initiatives to increase the effective and active participation of local communities in the debate on poverty reduction and economic development in the regions.

Other activities include organization of displays of SPPRED materials, CDs and audio tapes of SPPRED in libraries, posters on challenging people to fight poverty, information leaflets and presentations at various forums.

Details on these different forms of activities are given in the following sections.

Regional Workshops

From July onwards the SPPRED Secretariat held a series of regional workshops in Guba, Nakhichevan, Shaki, Masally, Shamaky and Ganja in 2003. The aim of these meetings was to provide information and to exchange views on the appropriateness and effectiveness of the implementation of SPPRED measures, and to

⁵⁶ These workshops were held in 2002 with support from USAID, the EU FSP, and UNDP. They were sometimes referred to as "Town Hall Meetings", although the venue was not necessarily the town hall.

facilitate fruitful dialogues with civil society, central executive bodies and municipalities.

As mentioned above, such workshops had been held in the formulation phase, and the Secretariat was able to build on the experience gained, during the first round of workshops in 2002. However, in 2003, coverage was extended slightly to include Shamaky. Another innovative aspect in 2003 was the active involvement of local NGOs in the organization of the regional workshops. Whereas the organization of the workshops in 2002 had been largely carried out by international bodies, in 2003, the local NGOs “Umid” and “Simurg” carried out all the preparation work, and worked to ensure the widest possible community representation and active participation at the meetings.

Financial support was provided by the USAID

for the organisation of the workshops, and they were attended by representatives from the WB, USAID, UNDP, UNFPA, ADB and other organizations. Overall, 88 international experts, representatives of international and local NGOs participated in the regional workshops.

So far a total of 257 representatives from various strata of the civil society from 23 districts and cities have participated in discussions at the workshops. Representatives from national government and from 11 Sector Working Groups have attended the meetings. Discussions focussed on the measures which are being implemented and will be implemented within the framework of the SPPRED. Participants put forward a total of 187 proposals, which are important for future revision of the SPPRED. Full reports concerning these meetings can be obtained from the SPPRED Secretariat. The table below provides the schedule, topics and venues of the meetings.

Table 7.1. List of regional workshops on SPPRED in 2003

Region	Topics	Participation training date	Workshop date
Guba	Municipality, Health, Economic Development, Ecology & Tourism	July 1, 2003	July 2, 2003
Nakhchivan Shaki	Municipality, Health, Energy, Agriculture Education, Social Protection Ecology & Tourism, Investment	July 24, 2003 August 14, 2003	July 25, 2003 August 15, 2003
Masally	Municipality, Ecology & Tourism, Agriculture, Economic Development	September 4, 2003	September 5, 2003
Shamakhy	Education, Judicial Reforms, Ecology & Tourism, Energy	September 18, 2003	September 19, 2003
Ganja	Health, Municipality, Economic Development, Refugee & IDPs	November 13, 2003	November 14, 2003

Dissemination of information through the Mass Media

In an effort to publicise the SPPRED as widely as possible, work with representatives from the mass media has resulted in an excellent coverage of the implementation process in many newspaper articles, films, and interviews and presentations on Radio and TV. A brief list is given below:

(I) Newspaper articles, interviews with the press:

- 32 articles on the SPPRED were published by various journalists in various newspapers, including “Khalq”, “Respublika” and “Ayna”.
- 74 articles were published in various newspapers and journals in the context

of “MDG and poverty reduction in Azerbaijan”.

- 5 press-releases on the regional workshops were sent to Trend, Turan, Sharq and AzerTaj agencies.

(II) Radio broadcasts and interviews:

- 3 reports of the media competition on “MDG and Poverty Reduction in Azerbaijan” were broadcasted via Azerbaijan State Radio1 and Radio Antenne FM.
- Interviews with the heads of the Sector Working Groups of Social protection and Tourism on the activities of these sectors within the framework of the SPPRED were broadcast on Azerbaijan State radio and Araz radio.

(III) Television broadcasts and interviews:

- 1 report and 1 documentary film

were broadcasted on Space TV;

- 1 report on STV and 2 reports were broadcasted on Azad Azerbaijan TV in the context of “MDG and poverty reduction in Azerbaijan”;
- 1 TV film on the implementation process of the Programme was broadcasted on Az.TV;
- 1 TV film and 5 short TV spots on poverty in rural areas were prepared;
- Interviews on SPPRED implementation status were given on ANS, STV and Lider TV channels;
- Programmes on various measures implemented within the framework of the SPPRED were broadcasted on AzTV, ANS, Lider, ATV, Space, Nakhchivan TV, Sumgait TV and Khayal TV (Guba).

Training in participatory methods

Various training initiatives were undertaken to help promote effective and active participation of a broad section of society in the debate on poverty reduction and economic development in the regions. These included:

A conference “National community leader”, organized in Imishly by the Azerbaijan Community Development Research Training and Resource Center local NGO and supported by the USAID and CHF international organization. More than 150 community heads, municipal and state representatives, representatives of local and international NGOs from 14 regions of the Republic took part in this conference and a presentation “Active participation role of the communities in the SPPRED” was made by a member of the SPPRED Secretariat.

A presentation entitled “The SPPRED and Community Development” was given at the seminar on Inter-agency Community Development, organized by Mercy Corps, and attended by representatives of 11 various local and international NGOs.

A presentation on “The role of civil society in the SPPRED implementation process” was made at the Community Development conference. 59 representatives from the communities, municipalities and local NGOs participated in this conference, which was organized by Save the Children within the framework of the “Community Strengthening Network” project, supported by the WB in Nakhchivan, Lankaran,

Gabala, Shamkir and Guba regions.

A presentation on “Community development within the framework of the SPPRED” was made at the regional seminar “Studying community type development experience” organized by Save the Children with financial support from the WB in Ganja. The seminar was attended by 55 community representatives from 5 regions, 21 representatives from local, international organizations and media representatives.

Work with Target Groups

As mentioned above, most of the work done under this category took the form of training and awareness campaigns for various groups. The objective of these activities is to help increase the ability of key groups to participate actively and influence the implementation process. They also serve to facilitate broader participation in the debate on poverty and its causes. A summary of these activities is given below:

With support from Save the Children International organisation and SPPRED Municipality Sector Working Group, a training-seminar was organised on “The role of municipalities in SPPRED”. Seminars were organised for the Khyzy, Davachi and Siyazan municipalities. Local NGOs, women's councils, and was also attended by local community members.

The SPPRED Secretariat arranged discussions on poverty and ways to combat it for the pupils of the secondary school in Barda with support from the local NGO “Aran”.

With support from the UNDP, OXFAM and International Press Center, the SPPRED Secretariat arranged a seminar on “MDG and Poverty Reduction” for a more than 50 representatives of mass media and held a competition for the “Best articles and reportage.”

With support from the UNDP, the local NGO “Ruzgar” together with SPPRED Secretariat organised discussions on poverty and ways to combat it at the Technical University, Slavonic University, Teachers Advanced Training Institute, Pedagogical University, State University, University of Languages, University of Architecture and Construction, Academy of Public Administration and University of Economics. The process is still on-going.

With support from OXFAM, and the local NGO “Potensial”, a drawing competition “Poverty and

future” was organised for pupils of the secondary schools of Sumgait, Khyzy, Davachi, Guba and Khachmaz regions.

Other Activities

SPPRED publicity stands were organized in Baku, Barda, Ganja, Nakhchivan, Sumgait, Astara, Shaki, Masally and Guba regions of the Republic for the purpose of providing the population with more detailed information on SPPRED and thus encouraging more active participation in the implementation process.

CDs and audio tapes of SPPRED have been produced with financial support from OXFAM. A variety of literature on the areas of the Programme have been placed at the stands mentioned above. In addition, “proposal books” have been placed at the stands in order to find out the reactions and views of the population to the measures envisaged under the Programme.

With financial support from OXFAM, the SPPRED Secretariat produced 1000 posters on challenging people to fight poverty and dissemination of the posters has begun.

Main results

The results of the various activities undertaken as part of the participatory process have so far been positive in terms of creating a clearer understanding of the government and civil society concerning SPPRED's goals. Apart from providing representatives from civil society with more details on SPPRED, the activities have served to highlight local potential and resources; have facilitated the transfer of information and experience; and have given rise to new ideas on future measures.

One of the positive aspects which has come to light during the participatory process is the increased confidence and competence of participants to effectively engage in the debate. In contrast to the first year (during the formulation phase), the members of the population do not only enumerate their problems, but also put forward proposals for their solution and make suggestions on how they can contribute to this process.

However, certain parts of the population of the country have not yet been able to take an active

part in the SPPRED implementation process for a number of reasons. This is the case especially in the regions where regional workshops were not held and where community development is weak.

For this reason, the following recommendations are put forward for the purpose of further expansion of participatory process, and the involvement of more members of the civil society in the SPPRED implementation process:

- Seminars should be organised in selected regions of the country to discuss gaps and weaknesses which impede the active participation of civil society in the implementation process.
- More training seminars should be held, and projects designed, aimed at developing those skills and knowledge which can serve to strengthen the active participation of government and the civil society organizations and attract more representatives of the civil society to the participatory process.
- Qualitative survey methods should be used to tap the potential of civil society to define the main determinants of poverty and ways of improving living standards;
- Activities should be continued to encourage civil society organizations to become partners in the SPPRED implementation process;
- Further efforts should be made to interact with representatives of the media, in order to establish an effective dialogue with the mass media. There should be more articles and broadcasts on SPPRED in the national and regional press reporting on the measures being implemented within the framework of the strategy programme;
- Training courses and seminars should be organized to increase the skills and knowledge of the municipalities, promote their involvement and understanding of the SPPRED implementation process, while also supporting the decentralization process;
- Further efforts should be made to ensure a high level of participation of women in the implementation process and in the review of the policy measures envisaged under SPPRED;
- Efforts should be made to involve as many local NGOs as possible in the projects being implemented within the framework of the programme;
- Training courses should be designed to develop the skills of members of civil society to do independent research, collect qualitative information and analyze the poverty indicators.

Report on Millennium Development Goals

Azerbaijan has committed itself to achieve poverty reduction and promote human development in the country within the framework of Millennium Development Goals (MDGs). The MDGs were set out in the Millennium Declaration adopted by the UN General Assembly in 2000. They are a set of 8 goals, which provide a focus for the efforts of the world community to achieve measurable improvements in people's lives by the year 2015. The full MDG framework comprises of 8 goals, 18 targets and 48 indicators. Most targets are to be achieved over a 25 year period, from 1990 to 2015.

The MDG goals and targets are set on at the global level. Azerbaijan is now embarking on the task of setting country-specific goals and targets. The table below summarizes the results of the country discussion to date.

Global MDGs	Azerbaijan country-specific MDGs	Notes
Goal 1: Eradicate extreme poverty and hunger	Goal 1: Reduction of poverty	
<p>Target 1:</p> <p>Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day</p>	<p>Target 1:</p> <p>Reduce, between 2002 and 2015, the proportion of people whose per capita monthly consumption expenditure is below the country's absolute poverty line</p>	<p>Although SPPRED was based on 2001 poverty results, it would be better to take 2002 as the baseline, since both the survey methodology for data collection and the poverty line methodology were changed in 2002, but should be consistent from now on for monitoring purposes. Baseline for 2002 is 46.7%.</p> <p>Per capita consumption expenditure rather than income is the preferred welfare indicator for Azerbaijan.</p>
<p><u>Indicator 1:</u></p> <p>Proportion of population below \$1 per day (PPP values)</p>	<p><u>Indicator 1:</u></p> <p>Proportion of population with per capita monthly expenditure levels below the absolute poverty line</p>	<p>The methodology for the absolute poverty line is due to be approved by the Cabinet of Ministers in the coming months.</p> <p>A target/ indicator based on the proportion of people below the one dollar per day poverty line would be desirable. However, the WB recommends a poverty rate of \$2.15 per day for CIS countries, so this would be more appropriate. There is too much controversy currently surrounding the PPP rate for Azerbaijan, making the</p>

		calculation of this indicator unreliable. The WB Poverty Assessment (2002), attempt to calculate this using a revised PPP rate (see Box 1.2 of the report; the revised rate is AZM 2,151 for 2001, compared to AZM 976), but for the purposes of setting a MDG target, it is best to wait for an official review of the PPP.
<u>Indicator 2:</u> Poverty gap ratio (incidence x depth of poverty)	<u>Indicator 2:</u> Poverty gap ratio	Calculated on the basis of the absolute poverty line now being considered by the Cabinet of Ministers. Baseline for 2002 is 0.0822.
<u>Indicator 3:</u> Share of poorest quintile in national consumption	<u>Indicator 3:</u> Share of poorest quintile in national consumption	Baseline for 2002 is 15.1%.
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Target 2: Reduce, between 2002 and 2015, the proportion of people in extreme poverty. Halve the share of the population below the relative poverty line of the country	SPPRED estimates the extent of extreme poverty as 17%, using a poverty line of 60% of the median per capita consumption expenditure level. Again, it would be better to use 2002 as the baseline, since the survey methodology and poverty line should be stable from now on. Extreme poverty for 2002 is estimated at 11%, using a relative poverty line equal to 70% of the median per capita monthly consumption expenditure level. Baseline for 2002 is 11%.
<u>Indicator 4:</u> Prevalence of underweight children (under five years of age)	<u>Indicator 4:</u> Prevalence of underweight children (under five years of age)	If MICS is carried out regularly (on a 4-5 year basis), this data source could be used to provide estimates of underweight children. In 2000 – 16.8 (MICS data) In 2001 – 6.8% (RHS data)
<u>Indicator 5:</u> Proportion of population below minimum level of dietary energy consumption	<u>Indicator 5:</u> Share of boys and girls aged 6-10 year old with goiter and anemia	This is recommended by WHO in Azerbaijan, but more information is required on the availability of data on goiter. Anemia can be monitored for 0-14 years since 2001. No information on goiter available from official statistics. Prevalence of anemia among children aged 0-14 years: In 2001 – 0.5%; In 2002 – 0.6%.

	<p><u>Indicator 6:</u></p> <p>Gender disaggregated unemployment rates and employment and in the non-oil sector</p>	Data to monitor employment will be available from 2003 onwards, due to the introduction of a new labor force survey. The President of the Republic has set a target of creating 600,000 new jobs by 2008.
	<p><u>Indicator 7:</u></p> <p>Number of children entering institutional care due to fact that parents are too poor to support them.</p>	Data on children in institutional care is being improved and will be checked for suitability as a monitoring indicator.

<p>Goal 2: Achieve universal primary education</p>	<p>Goal 2: Achieve near-to-universal secondary education</p>	<p>Universal primary education is already a reality in Azerbaijan. The problem is to improve the quality of primary and other stages of education. It is considered important to achieve near to full secondary education for all (i.e. classes 1 – 11; at present education is obligatory up to class 9). However, it has to be stressed that near-to-full enrolment for full secondary education is only a worthwhile goal, if it is accompanied by the measures envisaged in SPPRED to improve the quality of school education.</p>
<p>Target 3:</p> <p>Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</p>	<p>Target 3:</p> <p>Ensure that, by 2015, almost all boys and girls will be able to complete a full course of secondary education</p>	<p>Universal secondary education is not considered a realistic goal, but a target will be set for near-to-universal secondary education</p>
<p><u>Indicator 6:</u></p> <p>Net enrolment ratio in primary education</p>	<p><u>Indicator 8:</u></p> <p>Gross and net enrolment ratios in secondary education</p>	<p>Current methods of data collection only allow calculation of gross enrolment rates. This will be improved in the near future, and net enrolment rates will also be available.</p>
<p><u>Indicator 7:</u></p> <p>Proportion of pupils starting grade 1 who reach grade 5</p>	<p><u>Indicator 9:</u></p> <p>Attendance rates for secondary education (by class, by gender)</p>	<p>Current methods of data collection do not allow the calculation and monitoring of attendance rates, but this is an improvement in monitoring methods which is envisaged by SPPRED, and which will be implemented in the near future. Attendance rates for the upper secondary</p>

	Not yet available: administrative data may be available from 2004	<p>school classes will also be important for the monitoring the differences in gender equality/ opportunities. They will also be a proxy indicator for monitoring improvement in the quality of education. Attendance should be monitored using administrative and survey sources.</p> <p>Data are not yet available and administrative data may be available from 2004.</p> <p>Indicators will have to be found to monitor improvements in the quality of education at secondary schools (for example, learning achievement)</p>
<p><u>Indicator 8:</u></p> <p>Literacy rate of 15-24 year olds</p>	<p><u>Indicator 10:</u></p> <p>Literacy rate of 15-24 year olds</p>	<p>Literacy rates are currently almost universal, but this indicator will continued to be monitored for the purposes of comparison with other countries. According to 1999 census data: per 1000 population male - 971 and female - 980.</p>

Goal 3: Promote gender equality and empower women	Goal 3: Promote gender equality and empower women	
<p>Target 4:</p> <p>Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015</p>	<p>Target 4:</p> <p>Maintain gender equality in primary and secondary education, and improve gender equality in higher education by 2015</p>	<p>Enrolment rates in primary and secondary education show no gender differences (see chapter on education). However, attendance rates will be monitored to check for gender differences which are not captured by enrolment rates. Females are less likely to continue to higher education, and the goal is therefore set of achieving gender equality in higher education</p>
<p><u>Indicator 9:</u></p> <p>Ratio of girls to boys in primary, secondary and tertiary education</p>	<p><u>Indicator 11:</u></p> <p>Ratio of girls to boys in primary, secondary and tertiary education</p>	<p>As in the education chapter, these enrolment indicators will continued to be monitored, and will be supplemented by ratios based on attendance.</p>
<p><u>Indicator 10:</u></p> <p>Ratio of literate females to males of 15-24 year olds</p>	<p><u>Indicator 12:</u></p> <p>Ratio of literate females to males of 15-24 year olds</p>	<p>No discrepancy currently evident, but this indicator will be monitored.</p>

<u>Indicator 11:</u> Share of women in wage employment in the non-agricultural sector	<u>Indicator 13:</u>	This indicator is still being discussed. It has to be adapted for Azerbaijan, to cover the share of women in top wage sectors/ jobs. Data availability is still being checked.
<u>Indicator 12:</u> Proportion of seats held by women in national parliament	<u>Indicator 14:</u> Share of women represented in top positions in economic and political life	This indicator still has to be refined. National parliament is not considered suitable for Azerbaijan. Women are quite well represented there, but not in top government and economic positions. Data sources have to be checked.

Goal 4: Reduce child mortality	Goal 4: Reduce child mortality	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	The problem with all the targets and indicators under goals 4 and 5 is the discrepancy between official data (based on administrative sources) and survey estimates. (see chapter on health) Efforts will be made in the future to improve administrative data, and surveys will continue to be carried out. In the meantime, targets will be set using both administrative and survey data as baselines; i.e. two targets are set for target 5 and target 6: one using administrative data as the baseline, and one using UNICEF's MICS estimates as the baseline. Another problem is that 1990 is not always the best baseline: indicators worsened considerably in the first transition years, and taking 1990 as the baseline means setting unrealistic targets, and underestimating achievements in improving the situation.
<u>Indicator 13:</u> Under-five mortality rate	<u>Indicator 15:</u> Under-five mortality rate (per 1,000 children)	Will continued to be monitored using administrative and survey data (see health chapter)
<u>Indicator 14:</u> Infant mortality rate	<u>Indicator 16</u> Infant mortality rate (per 1000 live births)	Will continued to be monitored using administrative and survey data (see health chapter)

<u>Indicator 15:</u> Proportion of 1 year old children immunized against measles	<u>Indicator 17:</u> Proportion of 1 year old children immunized against measles	
Goal 5: Improve maternal health	Goal 5: Improve maternal health	
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	Target 6: Reduce by three-quarters, between 1995 and 2015, the maternal mortality ratio; i.e. from 37 per 100,000 live births in 1995 to 13 in 2015, using administrative data and from 79 per 100,000 live births (estimate for 1988) to 27 in 2015, using survey estimates	See note on Target 5. 1990 is not considered a good baseline because it does not reflect the difficulties which the country had to face in the transition period, which were reflected in the worsening indicators for maternal health and mortality in the post 1990 period. Therefore 1995 is taken as the baseline.
<u>Indicator 16:</u> Maternal mortality ratio	<u>Indicator 18:</u> Maternal mortality ratio	Will continued to be monitored using administrative and survey data (see health chapter)
<u>Indicator 17:</u> Proportion of births attended by skilled health personnel	<u>Indicator 19:</u> Proportion of births attended by skilled health personnel	Will continued to be monitored using administrative and survey data (see health chapter)
Goal 6: Combat HIV/AIDS, malaria and other diseases	Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	The problem is the data for setting a baseline and monitoring success in achieving the target. The number of HIV test performed in the country decreased from 300,000 per year in the early 1990s to 12,000 in 1998. There is a risk that the data available underestimates the problem due to the fact that not enough tests are performed. 556 cases recorded (1 July 2003) by National Centre in

		Response to AIDS)
<u>Indicator 18:</u> HIV prevalence among 15-24 year old pregnant women	<u>Indicator 20:</u> HIV prevalence among 15-24 year old pregnant women	Currently a problem with data collection for monitoring
<u>Indicator 19:</u> Contraceptive prevalence rate	<u>Indicator 21:</u> Contraceptive prevalence rate	Estimates available through survey estimates only (RHS, 2001)
<u>Indicator 20:</u> Number of children orphaned by HIV/AIDS	<u>Indicator 22:</u> Number of children orphaned by HIV/AIDS	Currently none according to official data. (see Epidemiological Fact Sheets, UNAIDS, UNICEF, WHO) Will be monitored as data availability improves.
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	Here we have kept malaria and TB as the major diseases. But initial discussion suggests that it may be advisable to include a target for reducing incidence of brucellosis
<u>Indicator 21:</u> Prevalence and death rates associated with malaria	<u>Indicator 23:</u> Prevalence and death rates associated with malaria	
<u>Indicator 22:</u> Proportion of population in malaria risk areas using effective malaria prevention and treatment measures	<u>Indicator 24:</u> Proportion of population in malaria risk areas using effective malaria prevention and treatment measures	
<u>Indicator 23:</u> Prevalence and death rates associated with tuberculosis	<u>Indicator 25:</u> Prevalence and death rates associated with tuberculosis	

<u>Indicator 24:</u> Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)	<u>Indicator 26:</u> Proportion of TB cases detected and cured under DOTS (Directly Observed Treatment Short Course)	More discussion required with WHO on how to monitor this.
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Goal 7: Ensure environmental sustainability	Goal 7: Ensure environmental sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	
<u>Indicator 25:</u> Proportion of land area covered by forest	<u>Indicator 27:</u> Proportion of land area covered by forest	As proposed by SPPRED, this has to be done in a sensitive manner, taking into account the access of local communities and poor to grazing land, energy supplies etc. (eg, collection of firewood cannot be forbidden by administrative order, if there are no alternative forms of heating available to the community. This measure has to be carried out parallel to improvements in the supply of energy sources to rural communities) Official data on proportion of land area by forest will have to be checked.
<u>Indicator 26:</u> Land area protected to maintain biological diversity	<u>Indicator 28:</u> Land area protected to maintain biological diversity	As above; indicators have to be checked Need to explore the possibility of developing an indicator related to share of GDP spent on environmental measures It may be suitable to monitor an indicator concerning land salinisation. Data on this is available.
<u>Indicator 27:</u> GDP per unit of energy use (as proxy for energy efficiency)	<u>Indicator 29:</u> GDP per unit of energy use (as proxy for energy efficiency)	Has been calculated for HDR reports. This indicator will be monitored in the future.

<p><u>Indicator 28:</u></p> <p>Carbon dioxide emissions (per capita) [Plus two figures of global atmospheric pollution: ozone depletion and the accumulation of global warming gases]</p>	<p><u>Indicator 30:</u></p> <p>Carbon dioxide emissions (per capita) [Plus two figures of global atmospheric pollution: ozone depletion and the accumulation of global warming gases]</p>	
<p>Target 10:</p> <p>Halve, by 2015, the proportion of people without sustainable access to safe drinking water</p>	<p>Target 10:</p> <p>Halve, by 2015, the proportion of people without sustainable access to safe drinking water</p> <p>Administrative data on access to piped water: 1990 – 89.2 2015 – 44.6</p>	<p>An exact target cannot be set until monitoring of safe drinking water is improved. SPPRED envisages improvement of the monitoring system (in health sector policy matrix)</p>
<p><u>Indicator 29:</u></p> <p>Proportion of population with sustainable access to an improved water source</p>	<p><u>Indicator 31:</u></p> <p>Proportion of population with sustainable access to an improved water source</p> <p>Administrative data on access to piped water: 1990 – 95.7% (urban); 10.8% (rural) 1995 - 95.7% (urban); 11.5% (rural) 2000 - 95.7% (urban); 11.3% (rural) 2002 - 94.2% (urban); 11.2% (rural)</p>	<p>Administrative data are not available. Some estimates are possible through the HBS. There is data on access to water through pipes, and there are stark differences between urban and rural areas. A target may be set to increase access of rural areas to piped water. However, this target will have to be accompanied by targets for ensuring that the quality of the water delivered through the pipes is up to health standards, and that the supply through the pipes is regular.</p> <p>Administrative data on access to the piped water in 2002: 94.2% - urban; 11.2% - rural.</p>
<p>Target 11:</p> <p>By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</p>		<p>For discussion – a shorter term target (2010?) may be appropriate for Azerbaijan – to ensure by this date that all IDPs are re-settled from accommodation with limited access to sanitation etc.</p>
<p><u>Indicator 30:</u></p> <p>Proportion of people with access to improved sanitation</p>		<p>As above</p>

<p><u>Indicator 31:</u></p> <p>Proportion of people with access to secure tenure [Urban/rural disaggregation of several of the above indicators may be relevant for monitoring improvement in the lives of slum dwellers]</p>		<p>As above</p>
<p>Goal 8: Develop a Global Partnership for Development</p>	<p>Goal 8: Increase FDI in the non-oil sector</p>	<p>All of this section needs further discussion. Exports from the non-oil sector could also be used as an indicator.</p>
<p>Target 12:</p> <p>Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally</p>		
<p>Target 13:</p> <p>Address the special needs of the least developed countries</p> <p>Includes: tariff and quota free access to LDC exports; enhanced program of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction (Indicators 32-36 relate to ODA)</p>		
<p><u>Indicator 32:</u></p> <p>Net ODA as percentage of DAC donors' GNI [targets of 0.7% in total and 0.15% for LDCs]</p>		

<p><u>Indicator 33:</u> Proportion of ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation)</p>		
<p><u>Indicator 34:</u> Proportion of ODA that is untied</p>		
<p><u>Indicator 35:</u> Proportion of ODA for environment in small island developing states</p>		
<p><u>Indicator 36:</u> Proportion of ODA for transport sector in land-locked countries</p>		
<p>Target 14: Address the special needs of landlocked countries and small island developing states (Through Barbados Program and 22nd General Assembly provisions: Indicators 27-40 relate to Market Access)</p>		
<p><u>Indicator 37:</u> Proportion of exports (by value and excluding arms) admitted free of duties and quotas</p>		
<p><u>Indicator 38:</u> Average tariffs and quotas on agricultural products and textiles and clothing</p>		

<p><u>Indicator 39:</u> Domestic and export agricultural subsidies in OECD countries</p>		
<p><u>Indicator 40:</u> Proportion of ODA provided to help build trade capacity</p>		
<p>Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term (Indicators 41-44 relate to Debt Sustainability)</p>		
<p><u>Indicator 41:</u> Proportion of official bilateral HIPC debt cancelled</p>		
<p><u>Indicator 42:</u> Debt service as a percentage of exports of goods and services</p>		
<p><u>Indicator 43:</u> Proportion of ODA provided as debt relief</p>		
<p><u>Indicator 44:</u> Number of countries reaching HIPC decision and completion points</p>		

<p>Target 16:</p> <p>In co-operation with developing countries, develop and implement strategies for decent and productive work for youth</p>		
<p><u>Indicator 45:</u></p> <p>Unemployment rate of 15-24 year olds</p>		<p>This will be monitored, as with the employment indicators mentioned under Goal 1.</p>
<p>Target 17:</p> <p>In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries</p>		
<p><u>Indicator 46:</u></p> <p>Proportion of population with access to affordable essential drugs on a sustainable basis</p>		
<p>Target 18:</p> <p>In co-operation with the private sector, make available the benefits of new technologies, especially information and communications</p>		
<p><u>Indicator 47:</u></p> <p>Telephone lines per 1000 people</p>		<p>Data available, and this is considered important to monitor</p>
<p><u>Indicator 48:</u></p> <p>Personal computers per 100 people</p>		<p>Data available, and this is considered important to monitor</p>

Mid-term Expenditure Framework for 2003-2005 (MTEF) and State Budget for 2003-2004

Introduction

Mid-term Expenditure Framework (MTEF) is one of the integral parts of the State Programme on Poverty Reduction and Economic Development for 2003-2005 in the Republic of Azerbaijan (SPPRED), which was approved by the relevant Decree of President of the Republic of Azerbaijan in February 20, 2003. Prudent expenditure policy and non-inflationary budget deficit financing did not only ensure economic stability, it is also directed at strengthening economic growth and reducing poverty through measures related to tax policy and expenditure prioritization.

MTEF includes projections of Government resources available for 2002-2005, calculated on the bases of macroeconomic forecasts, the expenditure strategy and explanation of detailed expenditure plans.

It is envisaged that MTEF will be reviewed annually in the process of budget approval. This report presents all the achievements in implementation of the MTEF from the date of approval of the SPPRED up to now (in particular, the latest legal and institutional development in budget management, changes in the tax system and expenditure).

The report deals with reflection of policy measures stipulated in the SPPRED in the approved budgets for 2003 and 2004. The budget figures in SPPRED have been replaced by actual figures for 2002. Neither revenue sources nor budget breakdown by functional and economic classifications were presented for 2005-2007, therefore SPPRED for 2005 is not discussed here.

Legal and institutional changes in the budget management

The Government has achieved considerable progress in development of a legal and institutional framework for budget management since the SPPRED was approved. The major step in enhancing efficiency, transparency and accountability in the budget management was the approval of the new "Budget System" Law in 2002. Additions and changes were made to the "Budget System" Law in May 2003 in order to bring it in accordance with international standards.

Unlike the old law, the new law covers all elements of the budget system, including budgets of the local self-governments and extra-budgetary funds, and sets out the below-mentioned measures: (i) publication of the draft annual budget law in the press prior to submission to the Milli Majlis (Parliament); (ii) approval of the state budget following more detailed discussion of each sub-item within functional classification paragraphs by the Milli Majlis for the first time; (iii) submission of three-year economic and budget forecasts to the Milli Majlis along with a draft annual budget law for the next year; and (iv) publication of the quarterly reports on the execution of the consolidated budget in the press.

Additions and changes to this law, which were made in May 2003 provide the Milli Majlis with the authority to approve expenditure and deficit ceilings for the consolidated budget, excluding SOFAR revenues. These additions and changes envisage the below-mentioned:

- All operations of the consolidated budget (except SOFAR revenues, operational expenses and foreign investments) should be carried out by the Treasury;
- All capital expenditure should be included in the Public Investment Program;
- Extra-budgetary funds, including SOFAR, can not make investments in domestic commercial activities or issue loans or loan guarantees;

- SOFAR should hold equity positions abroad only through rated professional portfolio managers.

As a result of economic reforms programme, which has been implemented by the Government since 1995, public funds have undergone substantial structural changes. Thus, the following important measures have been undertaken in this regard: a treasury system has been established, transparency and accountability in the public funds have been brought to the forefront, municipalities have been established and their financing sources identified. Now with huge investments in BTC pipeline and Azeri-Chirag-Guneshli (ACG) development it is expected that oil and gas production, as well their export will increase sharply starting from 2006-2007.

It should be noted that the challenge for the government is not only the very rapid growth of resources available for expenditure but ensuring rationale use of the revenues, which will flow in the country in 2006 and 2008. Even under a very conservative scenario of economic development, this will bring to an increase of more than 50% of the existing government revenues between 2006 and 2008. The government will refrain from spending all available resources on a year-by-year basis, and pursue a fiscal policy that recognizes the need for sustainability in a long-term outlook.

MTEF included into the SPPRED was the first step towards multi-year fiscal forecasting. Then in accordance with new Budget System Law by April 15th MoF prepared and submitted to the Cabinet of Ministers the draft Mid-term Budget Forecast for the next year and Mid-term Consolidated Budget Forecast for the next three years, which included total expenditure for the parts of consolidated budget. In October 2003 draft state budget for 2004 and draft consolidated budgets for the next three years were submitted to the Milli Majlis.

A number of measures had been taken to ensure transparency, accountability and efficiency in the public finances and to strengthen expenditure control. Starting with the 2003 budget, all extra-budgetary funds of budgetary organizations were included in the State Budget. In 2002 the State Budget started to allocate implicit subsidies to electricity and gas sectors for nonpayment of fuel provided by the SOCAR and in 2003 a mechanism was identified to deliver implicit subsidies. Furthermore, the state budget for 2004 envisages allocating implicit subsidies to the chemical sector. New budget classification was developed and submitted to the Cabinet of Ministers. Draft Law on State Debt and State Guarantees was prepared, Regulations on the register of State Foreign Debt of Azerbaijan Republic was developed. Program on transition to the international accounting standards has been approved. Treasury computerization process has started: a tender has been announced by the World Bank to equip pilot areas.

Resource envelope and performance

As revenue is largely a function of growth in economy it is necessary to look at the overall economic performance.

In total, growth of the real gross domestic product is expected to average about 11% annually in real terms for the period 2003 - 2005¹. The oil sector is forecast to grow very strongly, averaging 11% annually. The non-oil economy is also forecast to perform well, averaging 12% growth annually.

It is necessary to note that these growth rates will not be evenly spread throughout the 2003 – 2005 period. Major spending on oil developments will not begin until 2005.

¹ Unless otherwise noted, as here, all figures are nominal.

² A nominal financial unit is 5,500 AZM.

Table 1: Economic Growth Forecast

	2002 actual	2003 actual	2004 forecast	2005 forecast	Average 2003 - 2005
Real					
GDP	10.6%	11.2%	15.3%	11.5%	11.0%
Oil GDP	5.7%	3.0%	7.7%	22.2%	11.0%
Non oil GDP	13.0%	12.6%	11.2%	11.5%	11.8%
Nominal					
GDP	12.6%	13.6%	9.7 %	16.6%	13.3%
Oil GDP	12.7%	5.1%	0.2 %	22.2%	9.2%
Non oil GDP	12.5%	17.6%	13.6%	14.6%	15.3%

On the basis of this growth forecast, an estimate of tax and non-tax revenues has been prepared. These estimates show that the increase in tax and non-tax revenues will be average 12% per annum.

The Government envisages a number of measures consistent with the MTEF while identifying the revenue sources. Thus revenue collections are forecasted to increase at the Ministry of Taxes and State Customs Committee by virtue of better administration.

In order to encourage entrepreneurship and to increase the level of employment, the following changes in the tax system were approved. It mainly covers the following:

Enterprise profit tax was lowered from January 1, 2003 from 27% to 25% and at the same time government introduced a regional differentiated taxation principle on profit tax with the aim of encouraging development of the regions. Following discussions with the IMF, which argued that regionally differentiated tax policies are not effective and that these prevent the government's efforts to improve the tax administration, the profit tax was determined at the level of 24% and approved by the Milli Majlis on January 16, 2004 starting from 2004.

The area of introduction of simplified tax was extended from January 1, 2003 and its rates for the regions were determined. Simplified tax turnover has been increased from 300 times of the non-taxable monthly income by 22,500 times of the nominal financial unit² (i.e. 123,750 thousand AZM) in order to expand coverage of the simplified tax system. Now, this tax is also applied to private individuals doing business without creating a legal entity. Moreover, in order to give an impetus to the development of entrepreneurial activities in the regions of the country and reduce poverty and open new jobs, the following rates of the simplified tax were introduced: 4% - in Baku City and 2% - in the regions.

Furthermore, liability for private property, subject to simplified tax has been increased from 5 bln. AZM to 5.5 bln. since 2004. The amount of property tax imposed since 2004 has been increased from 50,000 times of the non-taxable monthly income, i.e. from 5 bln. AZM of nominal financial unit to 1,000,000 times, i.e. 5.5 bln. AZM.

The relevant work has been done to study the possibilities to reduce income tax from individuals. The Law on the "State Budget of the Republic of Azerbaijan for 2004" envisages to increase non-taxable monthly income from 100,000 AZM to 150,000 AZM and to move from 3-staged tax system (12; 25; 35% - 100,000; 1,000,000; 5,000,000 AZM) and 2-staged tax system (14; 35% - 150,000; 3,000,000 AZM).

Social contribution rate has been decreased from 29% to 27% since 2003.

In 2003 some extra-budgetary funds of budgetary organizations were eliminated and those that remain were included into the state budget. It is forecasted that SOFAR's financing of pro-poor capital projects will increase substantially and SOFAR will transfer to the State budget around USD mln. 380 for this purpose during 2003-2005 (USD mln. 100 – in 2003, 130 – in 2004 and 150 – in 2005).

Starting from 2003 implicit subsidies to the energy sector was included into the Consolidated Budget and subsidies per annum are approved by the Parliament with the annual Budget Law. In 2003 budget amount of subsidies approved made up 1,559 bln. AZM, in 2004 budget - 2,332 bln. AZM.

The government remains committed to honouring its limit on contracting external debt. New external debt is limited to USD 200 millions per year during 2003-2005 and all borrowings will be on concessional terms. WB PRSC credit is under discussion with the Government. With existing loans, funds will be disbursed as follows:

Table 2: External Financing (USD millions)

	2002 actual	2003 budget	2004 budget	2005 forecast	Average 2003 - 2005
Foreign loans for deficit financing (SAC II, PRSP)	30	34	20	15	23
Net project loans (1)=(2)+(3)	127	128	97	97	107
Loans to the government (2)	14	34	49	59	47
Net credits to budgetary organizations (3)=(4)-(5)	113	93	48	38	60
Disbursements (4)	122	103	60	50	71
<i>Contracted</i>	122	105	35	28	56
<i>New</i>	0	0	0	0	0
Repayments (5)	9	10	12	12	11
<i>Contracted</i>	9	10	12	12	11
<i>New</i>	0	0	0	0	0
Total external financing (bln. AZM)	762	788	590	525	634
Memo: new loans contracted	70	148	200	200	183

The capacities for additional domestic borrowing remain limited.

Table 3: Domestic Financing (AZM billions)

	2002 actual	2003 budget	2004 budget	2005 forecast	Average 2000 - 2002	Average 2003 - 2005
T-bills	-47.4	-30	50	40	19	20
State Lottery Bonds	3	3	5	5	2	4
Privatization Receipts	108	98	160	90	110	116
Total Domestic Financing	63	71	215	134	131	140

The “resource envelope” with the sum of the government’s tax and non-tax revenues, flows from the SOFAR, and financing, is as follows:

Table 4: Resource Envelope (AZM bln.)

	2002 actual	2003 budget	2004 budget	2005 forecast	Average 2003 – 2005
Tax and Non- tax Revenues	5564	6310	7200	7913	7141
SOCAR tax credit	1603	1599	2332	1842	1924
Transfers from State Oil Fund	434	1218	889	750	952
Domestic and External Financing	825	894	805	659	737
Total	8426	10021	11226	11164	10804
excluding implicit subsidies	6823	8422	8894	9322	8880
Annual change		18.9%	12.0%	-0.1%	10.3%
excluding implicit subsidies		23.4%	5.6%	4.8%	11.3%

Expenditure strategy

The government’s mid-term expenditure strategy for 2003-2004 is based around several principles. Maintaining macroeconomic stability remains as a main policy target and furthermore in the face of anticipated rapid growth in oil related revenues in the coming years government will pay crucial attention to the increase of oil related revenues and the expenditure rise.

Large-scale reforms in public sector pay system are not envisaged during 2002-2003 and in the approved 2004 budget. A partial civil servants pay reform started in 2003 and expected to continue in 2004. The unification of pay scales for employees, rationalization of public sector workforce and decompression outlines in the SPPRED has not been addressed. Instead, Government as a continuation of previous years experience in 2003 implemented selective raise of wages for education, health, science, social security, sport, youth, culture, art, mass media, agriculture, forestry, fishery, amelioration and water industry, ecology and hydrometeorology employees by 50%. Decree of the President of the Republic of Azerbaijan of November 24, 2004 “On measures to accelerate social and economic development in the Republic of Azerbaijan” could be considered as an impulse to public sector pay reform.

Regarding the policy of rationalization of expenditure on health care, education, and social assistance announced in the SPPRED, the following measures were undertaken by the Government. Due to salary increase in 2003 from the middle of year education expenditure increase in 2004 budget will be 20.6% instead of 10.1% envisaged in the SPPRED.

Opposite to education health expenditure in 2004 will only increase by 16.6% instead of 29.5% outlined in SPPRED. Salary increase for the employees in this sector in 2003 was at the same (50%) level as for the other selected groups. Low average monthly wage, which after increase made up to around 76 thousand AZM (for comparison in education after increase average wage made up to 237 thousand AZM), was not encouraging for health care workers to render higher quality medical services. No further increase for healthcare workers was envisaged in 2004 budget. At the same time to ensure that there is universal access to basic health care in 2003 Government eliminated all payments for the services provided by the out-patients' clinic. At the same time in 2003-2004 budgets there were less provisions made for primary health care (which is the main component of structural reform and will result in more cost-effective delivery of basic health services) than was intended in the SPPRED.

Pensions of pensioners in all categories increased approximately 40% starting from August 1, 2003. Decision was not taken on the provision of compensation to households in line with the increases in utility collection rate envisaged in the energy sector reform program is not made.

Government identified reduction of unemployment as one of the main tasks of the State Programme in the social and economic development of the regions and intends to create 600, 000 new jobs for the next five years. The government has started preparing mid-term social assistance strategy.

In order to support economic growth, the government has started to pay more attention to and intends substantially increase expenditure on economic services (expenditure on housing and utility; fuel and energy; agriculture, forestry and fisheries; industry and construction; transport and communications). Much of this expenditure will be by its nature pro-poor, being either capital expenditure on building or rehabilitating infrastructure, or spending on programs to support the poor, such as provision of subsidised credits to farmers and entrepreneurs.

Government prepared Public Investment Program for 2003 -2005 and for 2004-2007. Most of PIP projects are related to infrastructure rehabilitation and investments in social sector. It is intended to include all capital expenditure into the PIP which in accordance with the new Budget System Law will be presented to the Milli Majlis.

Expenditures on operational costs were increased, in order to allow for increased payment for utilities by budgetary organizations, as well as to implement SPPRED measures in education, health and other sectors. In 2002 actual goods and services expenditure were 13% more than in 2001 and within the next two years they are expected to increase 68%. Utility payments by the budgetary organizations for 2002-2004 will be more than doubled.

While about 30% of consolidated expenditure was directed towards households as transfers, for example, while 17% was used for new capital expenses and maintenance of existing facilities, fully 50% of the consolidated budget was spent on health, education, and social protection, 10% was spent on defense, in 2001, the following key changes were made in 2002 and approved to be implemented by the end of 2004 (structure of 2002-2004 budgets are considered without quasi-fiscal subsidies).

Capital expenditure, which includes major rehabilitation of existing infrastructure, and building new infrastructure, increased to 21.3% of total spending in 2004 and will fall back to 2001 level in 2004.

Wages and salaries fell from 22% to 19% in 2002, but as a result of salary increase in 2004 they will reach 24% of total expenditure reflecting mainly 2003 pay increase.

Health expenditure dropped 4% to 3% of total expenditure in 2002, but it is forecasted to be maintained at the same level by the end of 2004. Taking into consideration lack of financing over the last years, health spending rise will be continued in 2005.

Education expenditure fell from 17% to 15% of total expenditure in 2002, but is going to be compensated in 2004 and will be at 2001 level. Within the education sector, despite of the measures, mentioned in the SPPRED, there will be no change in the expenditure structure, what means there are no serious reforms planned to be implemented within this period in the education sector.

Government continued its expansionary policy on social insurance and social assistance and in 2002 directed 30% (29% in 2001) and in 2004 around 28% of total expenditure to this area. No reform measures were considered in the budgets of 2002-2004.

This rise in capital expenditure is also reflected by a change in the share of expenditure on economic services, which in 2002 increased from 22% to 26% of total expenditure, in 2004 due to fall in foreign financed project loans they will be only 23% of total government spending without implicit subsidies.

Table 5: Structure of Consolidated Expenditure (excluding implicit subsidies)³

	2001	2002	2003	2004	2001 % in total	2002 % in total	2003 % in total	2004 % in total	Growth (2001-2003)		
									bln. AZM	%	
										nominal	nominal
Total	5467	6843	8303	8949	100%	100%	100%	100%	2836	52%	49%
Economic items											
Personnel Emoluments and Transfers to households	2828	3414	3824	4643	52%	50%	46%	52%	996	35%	32%
Personnel Emoluments	1195	1288	1593	2143	22%	19%	19%	24%	398	33%	30%
Transfers to households	1633	2126	2231	2500	30%	31%	27%	28%	598	37%	34%
Purchases of goods and services	1196	1656	2011	2269	22%	24%	24%	25%	815	68%	65%
Capital expenditure	954	1454	2107	1602	17%	21%	25%	18%	1153	121%	116%
Other	489	319	361	435	9%	5%	4%	5%	-128	-26%	-28%
Functional classification											
State operating functions	1265	1435	1771	2205	23%	21%	21%	25%	506	40%	37%
Social and welfare functions	2821	3351	3811	4513	52%	49%	46%	50%	990	35%	32%
Education	931	956	1170	1501	17%	14%	14%	17%	239	26%	23%
Health	210	224	277	351	4%	3%	3%	4%	67	32%	29%
Social protection and social security	1570	2054	2204	2471	29%	30%	27%	28%	634	40%	37%
State Budget	216	479	409	500	4%	7%	5%	6%	193	89%	85%
Social Protection Fund	1354	1575	1795	1971	25%	23%	22%	22%	441	33%	30%
Culture, arts and religion	110	117	160	190	2%	2%	2%	2%	50	45%	42%
Economic Services	1177	1757	2526	2079	22%	26%	30%	23%	1349	115%	110%
Investment	791	1210	1746	1239	14%	18%	21%	14%	955	121%	116%
Other items	205	299	195	154	4%	4%	2%	2%	-10	-5%	-7%

No serious reforms are expected to be carried out in 2002-2004. These years will be characterized in significant changes in expenditure policy over the next period starting from 2005-2006, when oil revenue flow to the budget will increase and the "Dutch disease" problem will need to be addressed.

NOTE: figures in column 2004 of Table 5 are not based on the consolidated budget but the State Budget.

³ Because of absence of data on 2001 implicit subsidies in order to provide comparability of 2002-2004 data quasi-fiscal subsidies were excluded from 2002-2004 consolidated expenditure.

Main Socio-Economic Indicators

Demographic Indicators¹

Indicators	Unit	1999	2000	2001	2002	2003
Total number of population (at the beginning of the year)	1,000 persons	7953.4	8016.2	8081	8141	8203
Male	%	48.8	48.9	48.9	49	49.1
Female	%	51.2	51.1	51.1	51	50.9
Birth rate	births per 1,000 population	14.9	14.8	13.8	13.8	
Death rate	deaths per 1,000 population	5.9	5.9	5.7	5.8	
Natural growth	per 1,000 population	9	8.9	8.1	8	
Population growth rate	per 1,000 population	7.8	8.0	7.4	7.5	
Life expectancy at birth	years	71.6	71.8	71.9	72.2	
Marriages	per 1,000 population	4.8	5	5.2	5.2	
Divorces	per 1,000 population	0.6	0.7	0.7	0.7	
Number of births out of wedlock	in % of total number of live births	6.4	5.4	6.6	7.6	
Fertility rate	average number of children per woman	2	2	1.8	1.8	
Net migration	1,000 persons	-4.3	-5.5	-4.7	-3.1	

¹ Source: SSC

Economic Indicators ²

Indicators	Unit	2001	2002	2003³
Gross Domestic Product (GDP)	bln. AZM	26619.8	30312.3	35053.4
	mln. USD	5707.8	6089.9	7138.0
growth rate	%	109.9	110.6	111.2
deflator index	%	102.7	100.7	104.0
share of public sector	%	28.2	27.0	26.7
share of private sector	%	71.8	73.0	73.3
share of oil sector	%	32.0	29.6	29.0
share of non-oil sector	%	68.0	70.4	71.0
GDP distribution by sector:				
industry	%	35.2	34.9	37.8
agriculture	%	15.8	14.2	13.1
construction	%	6.2	10.8	12.1
trade and paid services	%	7.9	7.5	7.9
transportation and communication	%	10.9	9.8	9.5
others	%	24.0	22.8	19.6
GDP per capita	1,000 AZM	3225.9	3676.4	4320.0
	USD	714.3	756.3	879.7
Industrial products (goods and services)	bln. AZM	18845.0	20097.7	23652.2
growth rate	%	105.1	103.6	106.1
deflator index	%	101.8	97.7	116.1
Agricultural products	bln. AZM	5899.7	6352.6	6832.6
growth rate	%	111.1	106.4	105.6

² Source: SSC

³ Based on preliminary data

deflator index	%	103.4	100.0	102.0
production of harvested products	%	60.9	61.0	60.5
animal-husbandry products	%	39.1	39.0	39.5
Capital investment from all financial sources (including foreign investments)	bln. AZM	7273.1	13389.9	19574.9
growth rate	%	110.6	184.2	146.2
Domestic investments	bln. AZM	2188.7	2526.5	3500.0
	mIn USD	470.1	519.8	712.8
growth rate	%	95.1	115.4	137.1
Foreign investments	bln. AZM	5084.4	10863.4	14340.5
	mIn USD	1092.0	2234.9	3273.3
growth rate	%	119.0	200.0	146.5
Investment in fixed assets	bln. AZM	5854.1	10534.9	17809.5
growth rate	%	121.0	180.0	171.2
Credit allocations	bln. AZM	2431.3	2600.8	3339.1
growth rate	%	104.7	107.0	128.4
Long-term credit allocations	bln. AZM	661.4	729.6	914.9
Short-term credit allocations	bln. AZM	1769.9	1871.2	2424.2
Revenues of the State Budget	bln. AZM	3924.0	4551.2	6127.6
	mIn USD	2741.9	936.3	1247.8
Expenditures of the State Budget	bln. AZM	4037.5	4658.6	6169.5
	mIn USD	2821.3	958.4	1256.3
Budget deficit	bln. AZM	-113.5	-107.4	-41.9
	mIn USD	-79.3	-22.1	-8.5
Ratio of budget deficit to GDP	%	-0.4	-0.4	-0.1
Retail commodity turnover	bln. AZM	11877.4	13442.3	15310.0
Average nominal monthly wage	1,000 AZM	260.0	315.2	383.1
	USD	55.8	64.9	78.0
Total amount of paid services	bln. AZM	2488.6	2659.0	2961.1

Nominal income of population	bln. AZM	19381.8	21169.9	24207.9
growth	%	108.3	111.6	114.1
per capita	1,000 AZM	2378.9	2635.5	2983.4
Consumer Price Index	%	102.4	102.8	102.2
Average annual exchange rate (AZM/USD)	AZM	4656.4	4860.8	4910.8
Money supply (end of the year)	bln. AZM	1755.6	2025.8	2592.2
growth rate	%	105.6	115.4	128.0
Cash turnover	bln. AZM	1469.0	1668.7	2040.8
Non-cash turnover	bln. AZM	286.6	357.1	551.4
Foreign trade turnover	mIn USD	3745.3	3833.1	5218.2
growth rate	%	128.4	102.3	136.1
of which				
Export	mIn USD	2314.2	2167.5	2592.0
growth rate	%	132.6	88.8	119.6
Import	mIn USD	1431.1	1665.6	2626.2
growth rate	%	122.1	115.1	157.7
Trade balance	mIn USD	883.1	502.0	-34.3
SOCAR resources	mIn USD	491.5	692.0	815.0
International resources (including the SOFAR's funds)	mIn USD	1216.5	1374.0	1572.0
External debt	mIn USD	1270.0	1358.0	1508.1 ⁴
growth rate	%	109.3	106.8	111.0 ⁴
Ratio of external debt to GDP	%	22.3	22.3	21.2 ⁴

⁴ as of November 17th, 2003

Health Indicators⁵

Indicators	Unit	1999	2000	2001	2002
Expenditure on Health	% of total State Budget expenditures	5.7	5.4	5.2	4.8
Maternal mortality rate	number of cases per 100,000 live births	43.4	37.6	25.4	19.9
- by MICS ⁶ data	number of cases per 100,000 live births	79 (1988)			
Infant mortality rate	number of cases per 1,000 live births	16.5	12.8	12.5	12.8
- by RHS ⁷ data	number of cases per 1,000 live births	85.9 (1991-1995)	80.8 (1991-2000)	74.4 (1996-2000)	
- by MICS data	number of cases per 1,000 live births	79 (1996)			
Under-five mortality rate	number of cases per 1,000 children	31.7	31.7	24.8	23.1
- by RHS data	number of cases per 1,000 children	96.8 (1991-1995)	92.2 (1991-2000)	88.4 (1996-2000)	
- by MICS data	number of cases per 1,000 children	102 (1996)			
Proportion of under 1 children covered with vaccination					
of which, against tuberculosis	%	98.7	97.9	98.5	99.1
against measles	%	99.0	98.1	98.9	98.8
Proportion of breast-fed infants:					
of which, under 3 months	as % of total number of children at 1 year	39.4	37.6	30.3	29.7
under 6 months	as % of total number of children at 1 year	30.2	32.6	32.4	30.4
under 4 months (exclusive) ⁶	%		9.4		
Children (born during 1996-2001) ever breast-fed ⁷	%			94.7	
Child (under 5) malnutrition					
of which, stunting (height-for-age), children under 5 years ⁶	%		19.6		

⁵ Source: SSC

⁶ Azerbaijan Multiple Indicator Cluster Survey, 2000

⁷ Reproductive Health Survey: Azerbaijan, 2001

- by RHS data	%			13.3	
Underweight (weight-for-age), children under 5 years ⁶	%		16.8		
- by RHS data	%			6.8	
Wasting (weight for height), children under 5 years ⁶	%		7.9		
- by RHS data	%			2.4	
General abortion rate	abortions per 1,000 women aged 15-49	9.4	7.7	7.9	7
General abortion rate ⁷	abortions per 1,000 women aged 15-44	116 (May 1998 – April 2001)			
Lifetime abortion rate ⁷	number of abortions per woman		3.2		
Skilled assistance at delivery	as % of mothers completing pregnancy by childbirth in hospital		79		
Skilled assistance at delivery ⁶	%	87.5			
RHS data	%	89 (1996-2001)			
Contraceptive prevalence among women of reproductive age (15-49 years) ⁸	%			41.1	
Contraceptive prevalence among currently married women of reproductive age (15-49 years) ⁵	%		55.1		
Contraceptive prevalence among currently married women of reproductive age (15-44 years) ⁶	%			55.4	
Dynamics of HIV detection	persons	177	63	130	97
- by Azerbaijan National Center in Respond to AIDS	persons	169	64	128	105
out of them the children up to 14 year old	persons	5	-	-	-
Tuberculosis incidence: number of persons registered by medical institutions with diagnosis	per 100,000 population	174.1	180	183.1	178.2
Malaria incidence	persons	2312	1530	1042	505

⁸ Source: SSC, based on survey data

Social Protection Indicators⁹

Indicators	Unit	1999	2000	2001	2002	2003
Total number of pensioners	1,000 person	1177	1202	1219	1245	1285
of which:						
old-age pension	1,000 person	727	737	734	735	743
disability pension	1,000 person	155	160	168	179	199
loss head of household	1,000 person	148	139	137	136	136
social pensions and service	1,000 person	147	166	180	195	207
Average sum of fixed monthly pensions, total	AZM	52574	64968	71984	73705	88493
of which:						
old-age pensions	AZM	51198	61510	73049	77730	80047
disability pension	AZM	38419	51721	67481	72029	75026
loss head of household	AZM	27134	38384	54096	53850	73715
social pensions and service	AZM	31525	45992	60302	60345	66791
Assistance rendered by the Government						
single child birth allowance:						
number of contingent	1,000 person	91.8	99.6	94	94.2	
amount	mln. AZM	4603.9	4993.1	6121.4	6519	
allowance for children under 3:						
number of contingent	1,000 person	42.1	31.2	27.5	26.4	
amount	mln. AZM	3705.7	2910.5	4413.4	4361	
funeral allowance:						
number of contingent	1,000 person	41.9	43.7	42.4	46	
amount	mln. AZM	9809.1	8872.1	9381.3	10800	

⁹ Source: SSC

allowance for children under 16:						
number of contingent	1,000 person	1556.4	1627.2	1622.2	1605	
amount	mln. AZM	168814	182504	177239	169159.9	
Boarding institutions for children						
Number of nurseries		4	4	4	4	
number of children in the nurseries	persons	184	197	191	173	
number of boarding houses for children		5	6	6	6	
number of children in the boarding houses	persons	608	684	705	749	
number of orphanages		2	2	2	2	
number of children in the orphanages	persons	569	554	540	516	
Number of special boarding schools for physically retarded children		14	13	13	12	
number of children in those schools	persons	2498	2679	2731	2860	
number of boarding schools for mentally retarded children		2	2	2	2	
number of children in those schools	persons	300	300	348	359	
Boarding schools of general type		38	38	39	39	
number of children in those schools	persons	17.1	17.6	17.8	18.9	

Education indicators¹⁰

Indicators	Unit	1999	2000	2001	2002	2003
Population with higher and secondary education (complete or incomplete) of ages 15 and more	per 1,000 persons	909	909	910	910	911
Children's gross enrolment ratio in pre-school institutions	%	16	17	18	19	
Gross enrolment ratio in primary education	%	95.7	98.2	98.6	98.8	
of which, male	%	95.3	98.7	99	99.6	
female	%	96.2	97.6	98.2	97.9	
Gross enrolment ratio in basic education	%	78.7	86.5	89.6	88.8	
of which, male	%	78.4	87.1	90.4	89.8	
female	%	79.1	85.8	88.9	87.7	
Gross enrolment ratio in upper secondary education	%	60.8	44.5	43.2	63.4	
of which, male	%	59.6	44	42.6	63.4	
female	%	62.1	45	43.7	63.5	
Gross enrolment ratio in vocational education	%	3.6	3.4	3.1	2.9	
Net enrolment ratio in vocational education	%	3.2	3.1	2.8	2.6	
Gross enrolment ratio in higher education	%	13.5	13.4	13.1	12.5	
of which, male	%	16.2	15.6	14.4	13.6	
female	%	10.8	11.2	11.7	11.3	
Net enrolment ratio in higher education	%	9	11.9	11.2	10.6	
of which, male	%	10.5	13.6	12.2	11.3	
female	%	7.6	10.1	10.1	9.9	

¹⁰ Source: SSC

Labor Market and Employment Indicators¹¹

Indicators	Unit	1995	1998	1999	2000	2001	2002
Economically active population	1,000 person	3641.3	3743.8	3748.0	3748.2	3763.4	3777.5
male	1,000 person	1991.3	1954.1	1956.2	1956.7	1966.8	1971.1
female	1,000 person	1650.0	1789.7	1791.8	1791.5	1796.6	1806.4
Annual average number of employed population	1,000 person	3613.0	3701.5	3702.8	3704.5	3715.0	3726.5
male	1,000 person	1979.9	1935.9	1936.6	1937.5	1945.0	1948.0
female	1,000 person	1633.1	1765.6	1766.2	1767.0	1770.0	1778.5
Employment in private sector	1,000 person	1585.8	1991.3	2360.8	2426.3	2475.0	2534.5
Employment in public sector	1,000 person	2027.2	1710.2	1342.0	1278.2	1240.0	1192.0
Employment in agricultural sector	1,000 person	1112.8	1139.6	1565.4	1519.2	1484.3	1497.5
Employment in service sector	1,000 person	1963.0	2155.7	1723.7	1782.3	1828.7	1800.4
Employment in industrial sector	1,000 person	537.2	406.2	413.7	403.0	402.0	428.6
Number of registered unemployed	person	28314.0	42329.0	45211.0	43739.0	48446.0	50963.0
male	person	11411.0	18234.0	19622.0	19283.0	21808.0	23088.0
female	person	16903.0	24095.0	25589.0	24456.0	26638.0	27875.0

¹¹ Source: SSC

Main Indicators of Labor Force Survey¹²

Indicators	Total	Urban	Rural	Age groups										
				15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-+
Labour force participation rate	62.9	58.8	68.2	66.3	26.4	19.4	20.5	20.1	17.8	20.0	29.4	45.8	73.0	92.0
of which, male	75.6	72.8	79.2	60.6	16.4	5.5	4.2	4.8	5.2	7.3	9.7	19.9	57.5	87.9
female	51.1	46.3	57.6	72.0	36.7	33.1	35.2	33.0	29.6	32.1	47.9	67.1	85.4	95.3
Inactivity rate	37.1	41.2	31.8	66.3	26.4	19.4	20.5	20.1	17.8	20.0	29.4	45.8	73.0	92.0
of which, male	24.4	27.2	20.8	60.6	16.4	5.5	4.2	4.8	5.2	7.3	9.7	19.9	57.5	87.9
female	48.9	53.7	42.4	72.0	36.7	33.1	35.2	33.0	29.6	32.1	47.9	67.1	85.4	95.3
Employment rate	56.2	50.5	63.5	27.9	56.0	68.6	72.7	74.5	77.7	75.0	64.7	51.4	26.2	7.9
of which, male	68.4	64.1	73.7	34.6	65.1	80.7	88.0	89.7	90.1	87.9	84.0	75.7	41.0	11.9
female	44.9	38.5	53.5	21.1	46.7	56.8	59.0	61.7	66.0	62.7	46.7	31.4	12.9	4.7
Unemployment rate	10.7	14.0	7.0	17.3	23.8	14.9	8.5	6.7	5.5	6.2	8.3	5.2	2.8	0.7
of which, male	9.6	12.0	7.0	12.0	22.1	14.6	8.2	5.7	4.9	5.2	7.1	5.5	3.6	1.1
female	12.2	16.9	7.0	24.6	26.2	15.2	9.0	7.9	6.3	7.6	10.3	4.5	0.7	0.0
Unemployment rate by education														
of which	Total	Male	Female	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-+
higher	4.9	4.9	5.0	0.0	25.7	26.1	8.5	4.8	7.0	10.3	13.6	2.6	1.5	0.0
incomplete higher	9.4	5.3	13.6	17.9	53.6	10.7	3.6	3.6	3.6	0.0	0.0	7.1	0.0	0.0
secondary professional	7.2	5.3	9.2	5.0	24.9	18.9	10.0	11.0	8.5	8.5	10.3	2.8	0.0	0.0
secondary special (vocational)	6.5	5.8	9.0	3.0	20.0	17.0	14.1	17.0	11.9	10.4	3.7	1.5	1.5	0.0
complete secondary	14.0	12.9	15.5	11.2	32.7	17.4	10.8	8.8	8.3	5.8	3.9	0.7	0.2	0.1
main secondary	11.3	10.1	12.4	18.4	32.0	13.2	6.6	5.5	5.9	7.0	5.9	3.7	1.5	0.4
primary	7.5	7.7	7.2	9.5	9.5	9.5	19.0	9.5	14.3	9.5	4.8	9.5	4.8	0.0
without primary education	7.0	9.1	5.7	25.0	0.0	0.0	50.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0

¹² conducted by SSC through technical assistance of ILO and UNDP, 2003