

State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015

Chapter 1 Introduction

In order to tackle poverty on a global level, the heads of 147 world countries joined together at the United Nations (UN) Millennium Summit in New York in September 2000 to sign the Millennium Declaration reflecting Millennium Development Goals (MDGs) and committed themselves to achieving poverty reduction by 2015. In order to meet the challenges set out in the Declaration, a set of 8 global goals were formulated, with 18 targets and 48 indicators. The first of these goals is to halve the number of the world's population living in extreme poverty and hunger.

National leader Heydar Aliyev signed the Millennium Declaration on behalf of the Republic of Azerbaijan.

In order to honor this commitment in line with the local conditions in the Republic of Azerbaijan which is signatory to the Millennium Declaration, the President of the Republic of Azerbaijan approved by his Decree #854 of February 20, 2003 the State Program on Poverty Reduction and Economic Development (SPPRED) in the Republic of Azerbaijan for 2003-2005.

Implementation of that State Program in 2003-2005 resulted in maintaining overall macroeconomic stability, ensuring dynamic economic growth and upholding inflation and national exchange rates at appropriate levels. In its turn these achievements promoted to implementation of substantial activities aimed at solution existing social problems as well as tackling poverty. So the poverty level consequently came down from 46.7% in 2002 to 29.3% in 2005.

In order to continue the positive process in improving the population's welfare the State Program on Poverty Reduction and Sustainable Development (SPPRSD) in the Republic of Azerbaijan for 2008-2015 was prepared.

Chapter 2 Poverty in Azerbaijan

2.1. Poverty Profile, Levels and Indicators

Table 2.1 summarizes the poverty levels in the country on the basis of statistics and data derived from the Household Budget Survey (HBS) for 2002-2007.

Table 2.1. Poverty levels for the Republic of Azerbaijan

	2002	2003	2004	2005	2006	2007
Poverty line, in AZN	35	35.8	38.8	42.6	58	64
Poverty level, in %	46.7	44.7	40.2	29.3	20.8	15.8

As it is seen from the Table in 2007 the poverty level dropped to 15.8%.

Analysis of the HBS data suggests that the following factors are associated with poverty risk in the country:

- there is a small difference in the poverty rates for urban and rural areas, but the poverty incidence in the urban area has been declining at a faster rate than that in the rural area;

- the lowest monthly income per capita by economic regions is reported in Upper Karabakh, Aran and Highland Shirvan. But the main difference is between Baku and the regions of the country (Difference in income rate between Baku and Upper Karabakh with Aran areas was correspondingly AZN25.9 and 19.7);
- the poverty risk increases the larger the household size (number of household members); the monthly income rate per capita in household with 4 children 1.5 times lower compared to household without children and 1.3 times lower compared to household with 1 child. Income per capita for people living alone is 2 times higher than that one for households with children;
- the poverty risk for the household decreases the higher the education level of the head of the household, especially when the head of household has higher education;
- while the monthly income rate for households where the head of household is in the 30-39, 40-49 and 60+ age groups is lower, it for households where the head of household is in the 18-29 and 50-59 age groups is higher than average one;

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

There is still a number measurement challenges in the monitoring of the aspects listed above, but the available data suggest summarizing the following points:

- present ozon layer depletion, climate changes, abrupt reduction of biodiversity, continuous natural disasters, pollution of the environment cause spreading of various diseases. Respiratory track, infectious, parasitic, blood circulation diseases and indigestion are mainly widespread among population of the country;
- the incidence of communicable diseases which can be easily prevented, such as TB, malaria, is going down, but needs to be kept under control. This requires relevant public investment in preventative measures in the public health services, and for children, ensuring full coverage with immunization programs;
- there are still under-nutrition and malnutrition problems amongst vulnerable groups, particularly but not only the Internally Displaced People (IDPs). There is a need to intervene with special programs for these groups;
- school enrolment rates are high, but there are concerns about growing differentials in quality of education provided at schools. Public investment in education is necessary to increase for addressing these differentials, and ensure that all children are provided with the same opportunities;
- housing conditions for vulnerable sections of the population are unsatisfactory, and affect the health status of household members. Overcrowding, heating with non-clean fuel, lack of regular electricity supply, and lack of access to piped water are problems faced by a large section of the IDP population, and other vulnerable groups. Public investment has to prioritize improvements in social infrastructure for these groups.

2.2. Significant Points for Policy Formulation

Based on HBS results the following points should be taken into consideration when formulating policy priorities:

1. Income generation has been much easier in Baku than in other urban and rural areas. The regions outside of Baku have lower living standards, suggesting less employment opportunities. From this prospective there is a need to promote sustainable economic development including that one across different sectors in the regions considering local peculiarities.

2. The fact that there is a high poverty risk for those in working age (higher than for retired age) suggests that employment does not necessarily protect households and individuals from poverty. From this viewpoint there is a need to ensure that employment is high-wage and productivity – i.e. there is a need to develop labor intensive sectors, and to replace underemployment with employment in productive jobs.
3. Children have the highest poverty risk, as do households with many children. As children represent additional expenditure for households some of the poverty risk for children can be reduced by improving the income-generating activities of adult household members. Meantime social protection measures also need to ensure that vulnerable households with children are provided with support. The fact that children have a higher poverty risk than the elderly suggests the need to focus more social expenditure on the younger age groups and families with children.
4. Recent ever-growing worldwide need in food, drastic rise in prices of energy resources as well as use of arable lands for bioenergetic raw materials cultivation cause rise in price of foodstuffs. In its turn it affects negatively on food supply to low-income groups of population, and on overall living standards in the country. Food security issues have to be reconsidered in the light of current international and local situation.

Chapter 3 **SPPRSD - Overview**

3.1. Strategic Goals

The following 9 strategic goals for the SPPRSD for 2008-2015 were identified:

- I. ensuring sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector;
- II. increasing income-generating opportunities and achieving substantial reduction in the poorest sections of the population;
- III. reducing social risks for old age groups, low-income families and vulnerable groups of population by developing effective social protection system;
- IV. continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs;
- V. improving the quality of and ensuring equal access to affordable basic health and education services;
- VI. developing social infrastructure, improving public utilities system;
- VII. improving environmental situation and ensuring sustainable management of environment;
- VIII. promoting and protecting gender equality;
- IX. continuing institutional reforms and improving good governance.

3.2. Specific Features

The specific features of the SPPRSD can be summarized as follows:

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

In order to achieve the strategic goals set out above measures to be implemented over 2008-2015 are classified under the 4 functional groups and set forth in the SPPRSD Chapters 4-7:

1. macroeconomic stability and economic growth (Chapter 4);
2. employment policy and social protection of the population (Chapter 5);
3. human development and social progress (Chapter 6);
4. institutional policy and good governance (Chapter 7).

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

This State Program sets priorities and targets for 8-year period (2008-2015) and includes a list of policy measures for the first 3-year period (2008-2010) (Attachment №1). Meantime based on the results of these activities approval of the new action plan for 2011-2015 is provided.

The main sources for financing the State Program are funds to be allocated for these purposes from the State Budget, the State Oil Fund (SOFAR) and the State Social Protection Fund (SSPF) as well as other sources not conflicting with legislation of the Republic of Azerbaijan.

Sources and amounts of funds required for implementation of the activities within the SPPRSD will be identified while considering development the State Budget, off-budget funds and MTEF on annual basis. In addition amounts of funds allocated for implementation of the SPPRSD policy measures and activities will be aligned with the financing sources of other strategy and concept papers, state programs, work and action plans (Attachment №2) as well as adjusted with loan agreements signed with international financial institutions.

3.3. Summary of Goals, Targets and Indicators

The Table 3.1 below summarizes generalized system of relevant targets and indicators on 9 strategic goals of the State Program.

Table 3.1. Overview of the strategic goals, targets and indicators of the SPPRSD

Strategic Goals	Targets	Monitoring indicators and baselines
1. Ensuring sustainable economic development through maintaining macroeconomic stability and balanced development of the non-oil sector	1. Maintain single digit figure inflation rate since 2011 by its annual reducing throughout 2008-2010 and maintaining at the manageable level	Inflation rate: 16.7% (2007)
	2. Increase GDP per capita by 2 times in 2008- 2015	GDP per capita: 3168.5 AZN (2007)
	3. Increase real non-oil GDP by 2 times by 2008-2015	Non-oil GDP: 9.5 bln. AZN (2007)
	4. Maintain non-oil GDP real minimum growth rate at 7-8% level in 2008-2015	Non-oil GDP real minimum growth rate: 11.3% (2007)
2. Increasing income-generating opportunities and achieving substantial reduction in the poorest sections of the population	5. Achieve 2 times poverty rate reduction by 2015	Poverty rate: 15.8% (2007)
	6. Reduce unemployment rate to 3-4% by 2015	Unemployment rate: 6.5% (2007)
3. Reducing social risks for old age groups, low-income families and vulnerable groups of population by developing effective social protection system	7. Ensure that minimum wage and basic pensions level are raised on regular basis and exceed the national minimum subsistence level since 2011	Minimum subsistence level: 70 AZN (2008) Minimum wage: 60 AZN (by early 2008) Basic pensions: 60 AZN (by early 2008)
	8. Gradually bring the eligibility criterion for receipt of social assistance up to the level of the	Eligibility criterion for social assistance: 45 AZN (by early 2008)

Strategic Goals	Targets	Monitoring indicators and baselines
	national subsistence minimum	
4. Continuing systematic implementation of activities aimed at improving the living conditions of refugees and IDPs	9. Improve the living conditions of refugees and IDPs	Share of refugees and IDPs settled in “decent houses”: 46% (2007)
	10. Increase the level of employment among refugees and IDPs to the average national employment level	Employment rate among refugees and IDPs: 31.7% (2007)
5. improving the quality of and ensuring equal access to affordable basic health and education services	11. Ensure that all school age children complete a full course of general education (I-XI grades) by 2015	Net enrollment rate at: primary education: 94.9% (2007) basic education: 79.9% (2007) secondary education: 48.8% (2007)
	12. Increase by 2 times the share of children in pre-school age completing pre-school education by 2015	Pre-school education coverage rate: 17.2% (2007)
	13. Ensure complete access of all schoolchildren to computers and internet by 2015	Number of pupils per computer in general secondary schools in: total: 47 (2007) V-XI grades: 29 (2007). Share of schools with internet access: 3% (2007)
	14. Achieve the European countries average under-one mortality rate by 2015	Under-one mortality rate: 12.1 per 1,000 (2007)
	15. Achieve the European countries average maternal mortality by three quarters by 2015	Maternal mortality rate: 35.5 per 100,000 (2007)
	16. Halt the spread of tuberculosis, malaria, brucellosis by 2015	Tuberculosis: 7,783 cases (2007) Malaria: 106 cases (2007) Brucellosis: 475 cases (2007)
	17. Halt the spread of HIV/AIDS by 2010	HIV/AIDS infections: 1,379 registered cases (2007)
	18. Increase life expectancy at birth to 76, of which 74.5 years for men and 77.5 for women by 2015	Life expectancy at birth: 72.4 (2007) of which: male – 69.7 years (2007) female – 75.1 years (2007)
6. developing social infrastructure, improving public utilities system	19. Create a reliable water supply system in the regional towns and villages by using local springs and ground water sources and supply all the population with water through a centralized water supply system by 2015	Share of population with reliable water supply system in the regional towns and villages: 46.5% (2007)
	20. Provide complete aeration and sanitation services in towns and settlements of the country by 2015	Share of population provided by the centralized sanitation services: 33.7% (2006)
	21. Improve households gas supply through a centralized gas supply system	Households with gas supply: 81.2% (2007)

Strategic Goals	Targets	Monitoring indicators and baselines
	22. Supply of heating to residential and non-residential buildings by 2015	Residential buildings heating supply: 22.7% (2006)
	23. Ensure complete satisfaction of the country's energy demands through internal resources and uninterrupted electricity power supply for all households by 2015	Electricity power production in the country: 21.4bln kvh (2007)
	24. Provide complete domestic household wastes related services 2015	700,000 subscribers in Baku are provided by services in this sector (2006)
	25. Increase the number of telephones to 50 per 100 persons in cities and regional towns and to 30 per 100 persons in rural areas by 2015	Telephone lines per 100 person: in total – 14.6 (2007) in urban areas - 33 (2007), In rural areas – 9.4 (2007)
	26. Increase the number of internet users to 50 per 100 by 2015	Internet users: 12 per 100 (2007)
	27. Reconstruct 2,800 km of the country's roads in line with international standards by 2015	Total length of the roads reconstructed in line with international standards: 1,020 km (2007)
7. improving environmental situation and ensuring sustainable management of environment	28. Increase the proportion of forest areas in total land area to 12.5% by 2015	Proportion of forest areas in total land area: 11.5% (2007)
	29. Increase the share of protected land area in the total surface area to 12% by 2015	Share of protected land area in the total surface area: 8.1% (2007)
	30. Decrease by 20% the conditional fuel used for 1 kw of energy for reducing green-house emissions in the energy sector by 2015	Quantity of conditional fuel used for 1 kw of energy: 386 gr (2006)
	31. Achieve complete sewage treatment in the country by 2015	Sewage treatment in large cities: 57.9% (2006)
	32. Achieve 80% recycling and neutralization of solid household wastes in the large cities by 2015	Share of recycled and neutralized solid household wastes in the large cities: 10.9% (2006)
8. promoting and protecting gender equality	33. Ensure increased participation level of women in decision-making by 2015	Share of women among: Central executive authority chairpersons - 4 % (2007), Members of Parliament - 11.2% (2005) Municipalities - 4.08% (2004) Judges - 16% (2007)
9. continuing institutional reforms and improving good governance	34. Improve "good governance" and the quality of public sector management so as to align with EU standards by 2015.	

Chapter 4

Macroeconomic Stability and Economic Growth

4.1. Links to Poverty

Poverty is a multidimensional problem that goes beyond economics to include social and institutional issues. Although poverty reduction cannot be based exclusively on economic policies, economic growth and macroeconomic stability remain a prerequisite for poverty reduction, and are essential in order to achieve broad-based and sustainable rates of growth.

One of the principle prerequisite ensuring sustainable economic growth includes territorial and geographical diversification of the economic growth. In this regard non-oil sector development and regions balanced development are of utmost importance. Thus, sustainable economic growth is the basis of macroeconomic stability.

To safeguard macroeconomic stability, all public expenditures of the country must be managed in a sustainable, non- inflationary manner. Researches show that rapid increases in inflation tend to hurt the poor most, and increase the likelihood of people who live just above the poverty line falling back into poverty. Thus macroeconomic stability, ensured sustainable economic growth, and careful management of government revenue and expenditure have key importance.

4.2. Current Situation and Main Challenges

As a result of the successful economic policies implemented last year, overall macroeconomic stability has been maintained, sustainable economic growth ensured, development of entrepreneurship expanded, and job creation, especially in the regions has increased. These have all led to an increase in income generating opportunities, and a significant improvement in the well-being of the people.

As Table 4.1 shows, Azerbaijan's high rate of GDP growth in 2003-2005, has made it one of the fastest growing countries not only in the region, but in the world.

Table 4.1. Main indicators of the GDP for 2004-2007

	2004	2005	2006	2007
Total amount of GDP, in bln. AZN	8.5	12.5	18.7	26.8
of which non-oil sector	5.24	6.1	7.6	9.5
Per capita GDP, in AZN	1,042	1,513.9	2,241.1	3,168.5
Real growth rate of GDP, in %	10.2	26.4	34.5	25.0
Deflator index of GDP, in %	108.4	116.1	111.3	114.4
Share of non-government sector in GDP, in %	73.5	77.8	81.0	84.0

In this period oil revenue continued to be accumulated in SOFAR and additional budget revenue due to the increase in global oil prices, was accumulated in a special account. The National Bank (NB) of the Republic of Azerbaijan made limited purchase interventions in the currency market and continued to issue of its short-term notes as part of the sterilization policy to neutralize surplus liquidity in the banking system.

In addition in order to limit the expected negative impact of the huge oil and gas revenues on the economy and to the Presidential Decree dated September 27, 2004 approved the "Long-term Strategy on Management of Oil and Gas Revenues" which has the objective of channeling the energy sector revenues into the development of non-oil sector, poverty reduction, and the development of human capital. This strategy is a basis to promote to the non-oil sector integration to the world economy enhancing its international competitiveness.

Control over the nominal exchange rate of the national currency has ensured a long-term favorable trend in the real exchange rate index and helped to promote the international competitiveness of the country. Although the real effective exchange rate of the national currency appreciated by 12.2% in the non-oil sector during 2007, it depreciated by 11% in December, 2007 compared with the relevant period of 2000. Thus though the real effective

exchange rate was strengthened for short term it changed in scales promoting to protection of the international competitiveness of the country.

The amount of currency reserves has increased significantly. The amount of official currency reserves of the NB for January 1, 2008 exceeded 4 bln. USD. At the same time, the amount of internal currency reserve equivalent to exported goods and services excluding the oil sector exceeds 5 times the international standards on funding terms. The share of foreign debts under state guarantee in GDP decreased to 18.6% in 2004 and 8.2% in 2007.

The total amount of investment in the national economy from all sources increased at 1.5 times in 2007 compared with 2004, and amounted to 7.5 bln. AZN (8.7 bln. USD), 3.3 bln. USD of which was FDI (90.5% in oil sector). At the same time the amount of investment from domestic financial sources in the same period also increased by 3.5 times, and its share in total investment increased from 26.9% in 2004 to 61.9% in 2007.

The total trade operations amounted to 27 bln. USD in 2005, of which exports accounted for 21 bln. USD and imports 6 bln. USD, with the positive saldo on all export-import operations amounting 15 bln. USD.

As a result of measures to improve the legal regulatory framework of the securities market, to protect the rights of investors, to enhance application of corporate management standards, to ensure proper information by issuers and to create an organized loan market, the number and amount of shares issued have been increased. So if in 2004, 50 issuers issued 62 shares with a total value of 91.9 mln. AZN, 108 shares were issued by 84 issuers with a total value of 225.7 mln. AZN in 2005; in 2006, 100 issuers issued 135 shares with a total value of 340.8 mln. AZN and 137 shares were issued by 113 issuers with a total value of 795.4 mln. AZN in 2007.

In order to promote further improvement in the investment climate, entrepreneurship development and subsequently creation of new job places corporate tax was decreased from 27% to 25% in 2003, 24% in 2004 and 22% on January 1, 2006. Compulsory social insurance contributions from employers were also reduced from 29% to 27% in 2003 and 22% in 2005. Agricultural producers have been exempted from all taxes, except for the land tax, for a five year period (2004-2008). In order to expand the use of the simplified tax system, from 2003 the simplified tax turnover has been increased from 300 times of non-taxable monthly income (6,000 AZN) to 22,500 times of the conditional monetary unit (24,750 AZN). In order to promote development of the entrepreneurial activities Presidential Decree #2458 on "Measures to Ensure Arranging One-stop-shop Principle Based Activities of the Entrepreneurship Subjects" was signed on October 25, 2007.

In order to promote entrepreneurial activities and increase state support to entrepreneurs, the total amount of soft state loans provided through the National Fund for Entrepreneurial Support has increased annually 40 mln. AZN in 2005, 80 mln. AZN in 2006 and 90.7 mln. AZN. Meantime the organization of regular business forums in the same period has also had a positive impact, and has helped to bring together local entrepreneurs to officials and businessmen from different countries, thus expanding their access to information, while also helping to promote further foreign investment.

In order to develop the banking system, to strengthen private banks and to increase the population's confidence in them, requirements to the minimum amount of the banks charter capital have been increased, limits on the maximum share of foreign bank capital were eliminated and a centralized credit register introduced. With a view of increasing access of the population, especially in the regions, to banking services, a total of 40 new branches (21 in the regions) were created by 19 banks in 2005 alone. In total, by late 2007, 485 bank branches were functioning in the country.

According to the results of 2007, the amount of credits provided by banks to the national economy was equal to 4.7 bln. AZN, the share of bank assets and credits in the GDP were 20.9% and 18.7%, respectively. Credits provided by banks to the private sector increased by 97.7% in 2007 compared to the previous years, and its share in the total amount of credit was 57.3%.

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

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

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

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

4.3. SPPRS and Economic Policy

4.3.1. General Objectives and Targets

The priority directions for economic development are as follows:

- ensuring macroeconomic stability;
- ensuring balanced and pro-poor economic development through creation of enabling conditions for development of the non-oil sector and expansion of income-generation opportunities, especially in the regions and rural areas.

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

The policy measures in the “Macroeconomic Stability and Economic Growth” section have been grouped as follows: fiscal policy; monetary and exchange rate policy; development of financial markets; investment policy; industry and energy development; development of agriculture and ensuring food security; tourism policy.

4.3.2. Fiscal Policy

The followings are the main priority directions envisaged under the SPPRSD to improve fiscal policy:

- improving budget-related legislation;
- increasing budget revenue;
- increasing the efficiency of budget expenditure;
- improving the mechanism for managing state debt.

In line with the economic policy to be implemented, and in order to increase the efficiency of budget forecasting, the existing legislative framework will be reviewed, relevant changes made to the Tax and Customs Codes, and adjustment of the Customs Code to international conventions and standards completed.

With regard to *increasing budget revenue*, the number of tax exemptions will be reduced, unnecessary customs and tax privileges removed, the registration of tax evasion by legal and physical entities strengthened. At the same time, the rates for taxes and duties and social contributions will be revised, their optimal level identified, the mechanism for implementing the simplified tax regime and regulations on the application of VAT improved, and the VAT exemptions in import reduced to the minimum. In addition, public awareness will be raised to improve tax culture in the society.

Increasing the efficiency of budget expenditure envisages implementation of activities in the following sub-areas:

- rationalizing budget expenditure;
- strengthening control over budget expenditure;
- increasing the transparency of the budget process.

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

With regard to strengthening control over the use of budget funds, the legislative framework will be improved, the role of long-term planning in the budget process increased, and financial control over budget funds enhanced through regular routine revisions and analyses.

In order to increase the transparency of the budget process, the state procurement legislative framework will be improved, the monitoring system strengthened, electronic procurement introduced, and the regulations and standards used in the calculation of budget expenditure improved. At the same time, the institutional framework of state procurement will be strengthened, and professional capacity of the relevant staff increased through training.

The state debt management mechanism will be improved, the foreign debt, especially commercial credits received under state guarantee will be regularly reflected in the state budget. Also, the mechanism for monitoring the financial activity of organizations which have received credit under state guarantee will be improved.

4.3.3. Monetary and Exchange Rate Policy

Considering the importance of projected oil revenues for the country's development, ensuring macroeconomic effectiveness of the monetary policy will be prioritized. For this purpose strengthen sterilization capacity of the monetary policy, maintain the optimal trajectory for the non-oil deficit, regular and adequate design and implementation of MTEF, prevention of long-term rigidity of the real effective exchange rate will be envisaged. As a result targetting of inflation at a satisfactory level will be ensured.

At the same time, the institutional framework of the monetary policy will be developed to allow more adequate decisions in monetary policy, and the system of management of monetary policy tools, banking system liquidity and currency reserves improved. Also, the real sector monitoring system will be established and bank statistics adjusted to international standards to increase automatic access to statistical reports.

4.3.4. Financial Markets Development

The following priority areas have been identified under the SPPRSD to develop financial markets:

- developing the banking sector;
- developing the securities market;
- developing the insurance market.

With regard to *developing the banking sector*, the capitalization of the banking system through the increase of chartered capital of the banks will be continued, Basel II standards introduced, the electronic payment system developed and the system of deposit insurance established in order to adjust the banking system to international standards and to improve the system of banking supervision. The banking, micro-finance institution and credit union networks will be expanded in the regions, a postal deposit system established as well as specialized banks, including construction-deposit banks in order to provide the population, and in particular entrepreneurs, with broader access to banking services, especially in the regions. Also, the system of mortgage crediting will be developed and the access of people, especially vulnerable groups, to mortgage loans will be increased to help people improve their housing conditions. The establishment of an equal and competitive environment in the banking services market will be supported through expansion of the potential of private banks, more active attraction of foreign investment into the banking system and use of administrative anti-monopoly measures.

With regard to *developing the securities market*, the current legislative framework will be improved and a system aimed at protecting the rights of fixed-rate securities investors will be established. The system for making settlements will be improved and new branches of regional professional representatives of the securities market, including the National Deposit Center, will be established in order to expand and develop the securities market. The establishment of self-governing (non-government) bodies of professional stakeholders of the securities market will be encouraged, a system for monitoring of joint-stock companies created, the use of securities in the mortgage market expanded and a security operations database created to improve market regulation. In order to integrate with the international securities market and to more actively attract foreign investment, the issue of Eurobonds and creation of investment funds will be supported.

As for *developing the insurance market*, legislation relating to insurance will be improved, insurance and re-insurance activity encouraged and a single register on foreign re-insurers and foreign insurance brokers created to adjust the insurance market to international standards and to increase its efficiency. In order to develop insurance activities research and specialized organizations, insurance associations will be established, state control over insurance activities will be improved.

4.3.5. Investment Policy

The SPPRSD includes the following priority directions for improving investment policy:

- improving investment management;
- promoting fair competition;
- supporting development of entrepreneurship, especially in the regions;
- strengthening the competitiveness of domestic production and increasing the export potential of the country;

- expanding access to information and communication technologies (ICT).

With regard to *improving investment management*, the existing legislative framework will be improved to protect private property and improve corporate management and create a free competition environment for all investors, and a new “Law on Direct Private Investment” and other necessary legislative acts will be developed and adopted. Regular (mid-term) 4-year (covering the next year and the subsequent three years) public investment programs will be developed to finance SPPRSD priority investment projects in order to increase the prioritization of public investments in infrastructure. At the same time, comprehensive long-term sustainable development plans for the cities and regions will be designed and implemented in partnership with international organizations in order to ensure a sustainable and integrated approach in development of the regions, and to increase the efficiency of public investments to the regions. It is also planned to finalize the transition to international accounting standards in enterprises and organizations in order to adjust the activity of national businesses to international standards.

With regard to *promoting fair competition*, a Competition Code will be adopted, regular monitoring conducted to prevent division of markets and application of agreed prices in the consumption market, and relevant financial sanctions applied when such cases are detected. Also, regular monitoring will be conducted and financial sanctions applied to increase state protection of consumer rights and to ensure compliance with regulatory acts for the manufacture, import, export and sale (wholesale and retail) of consumer goods.

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

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

With regard to *improving privatization and management of state enterprises*, the privatization process will be continued in sectors open for privatization in accordance with the approved state privatization programmes and transparency and efficiency in the privatization process will be ensured. Also, the process of privatization of state shares of “International Bank of Azerbaijan” will be finalized under the SPPRSD.

With regard to *strengthening the competitiveness of domestic production and increasing the export potential of the country*, it is planned to continue WTO admission talks in order to work toward fuller integration of the national economy to the global economy, and to adjust national legislation on foreign trade to the requirements of the global trade system. At the same time, anti-dumping and other preventive measures will be carried out to protect the domestic market from unfair competition, the production of export-oriented goods and goods that can replace imported goods will be encouraged, national quality control standards will be developed, the certification system will be improved, and the system of state regulation of prices of goods (services) will also be improved. Local and international transportation management will be improved to expand access to international markets and the integration of national transport system into the global transport system will be strengthened through the “TRASECA” and “North-South” projects under the SPPRSD.

As regards *expanding the ICT access*, in order to create a national information security system and to protect the information rights of citizens, the ICT access will be improved, and higher quality radio-TV broadcasting and satellite communication services will be improved on the basis of new equipment and technology. At the same time regional information centers will be established to provide state, public and sectoral information resources and to create information systems and networks, and profound and applied scientific researches will be supported to ensure building of the information society. In order to improve state regulation of ICT, and standardization, certification and regulation of radiofrequency and numbering resources will be organized in accordance with international standards. Also, it is envisaged to upgrade the postal service and to introduce new forms of postal service in order to expand access of the people, especially rural residents, to ICT.

4.3.6. Industry and Energy Policy

A state programme on the development of this sector, outlining the government's medium-term activities, will be adopted under the SPPRSD in order to ensure comprehensive development of the industrial sector, including the non-oil sector. Also, in accordance with the "State Programme on Development of the Fuel-Energy Sector of the Republic of Azerbaijan (2005-2015)" approved by the Presidential decree #635 on February 14, 2005 for the purpose of development of the fuel-power complex, implementation of activities will be enhanced to establish a sound competitive environment in this sector, to improve the structure of the sector, to attract bigger investment to the sector, to provide environmental safety, and to ensure that full payment is received for the consumption of fuel and energy resources.

The provision of meters to the population will be finalized to ensure efficient use of power and to strengthen financial discipline in the sector, and relevant public awareness activities conducted to promote the thrifty and efficient use of power resources.

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

The potential use of alternative and renewable energy will be increased through creation of new capacity relying on alternative and renewable energy sources (small hydro power stations, wind farms), and regular monitoring will be conducted and relevant financial sanctions applied to minimize any negative impact on the environment from the development of the fuel-energy complex.

4.3.7. Agricultural Development and Food Security

Since over 48% of the population lives in rural areas, the agricultural sector is still an important source providing relevant employment and income generation opportunities for households. It is important to improve the access of agricultural producers to credit, equipment and other vital inputs and services, while ensuring that land is used in an environmentally sustainable way.

First of all, institutional reforms aimed at improving management efficiency will be continued in the sector to help develop agriculture under the SPPRSD. The policy of exempting agricultural producers from taxes will be reviewed to promote decent employment and self-employment in rural areas, and the access of people involved in agriculture to finance-credit sources improved. Also, the insurance mechanism will be improved to reduce damage to agricultural employers as a result of natural disasters.

The "Agroservice" network will be expanded to improve access of farmers to agricultural machinery and different subsidies and incentive mechanisms designed and introduced to increase

the production of needed agricultural products. The use of up to date technology and provision of the agricultural sector with the necessary market infrastructure through the involvement of the private sector will be supported to encourage the expansion of the network of agro-processing enterprises, and to increase the competitiveness of agricultural products.

In order to ensure intensive development of crops, the supply of fertilizers to farmers will be improved, the standards applied to agricultural products upgraded, and the fumigation (disinfection) of exported and imported agricultural products strengthened.

Private veterinary services will be expanded, and the physical-technical infrastructure of regional veterinary departments, phytosanitary services, plant protection stations and quarantine stations strengthened in order to improve veterinary and plant protection services.

The restoration of fertility of pastures, their protection from erosion and their use will be improved to protect the lands, increase their quality and regulate the pasture load. The physical and technical resources of seed-growing, seedling and pedigree facilities will be strengthened to ensure their efficient operation.

In order to provide the agriculture with high-quality specialists, the system of agricultural staff training will be improved, the physical and technical resources of agricultural science strengthened, and trainings, experience sharing and scientific researches done to increase managerial skills and knowledge of farmers.

Development of the agricultural sector does not only enhance employment opportunities and expand income generation sources for population groups working for this sector but also plays a key role in strengthening food security. Recent price rise at the world and local food markets did not pass over and affect population of the country, especially its poor groups, food supplying and living standards. From this prospective, reducing of the local food market dependence from importation and food supply to local population due to local production development has special importance.

In order to increase agricultural production and to improve food supply of the country population the State Program on Secure Food Supply to the Population in the Republic of Azerbaijan for 2008-2015 was approved by the Presidential Decree on August 25, 2008.

With a view of food supply improvement first of all systematic activities will be implemented to develop agrarian business, more effectively use households production capacities, and upgrade consumption customs for promotion of the local foods consumption and production.

4.3.8. Tourism Development

In order to expand the opportunity to benefit from the tourism potential in the country, to develop employment and self-employment in the regions and to better coordinate activity in this sector, a State Programme on the Development of the Tourism Sector for 2008-2016 was drafted. The legal and regulatory framework will be improved to promote tourism activity.

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

The capacity of the newly established Tourism Institute and Mingachevir Tourism College will be developed under the SPPRS to improve the staff training system for tourism and to supply it with high-quality specialists. In order to strengthen awareness-building and publicity activities in the tourism sector, the performance of existing information centers will be improved and new

tourism information centers established in the Airport named after H. Aliyev, the Gala village and Imishli, Ismayilly, Gabala and Masalli regions.

Chapter 5

Employment Policy and Social Protection of the Population

5.1. Employment Policy and Labor Market Regulation

5.1.1. Link to Poverty

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

Employment related issues are outlined in the section above. These issues are also specified in relevant sections of the SPPRSD. This chapter focuses at reducing unemployment, improving social protection of the unemployed, developing labor market as well as promoting employment for vulnerable groups of population.

5.1.2. Current Situation and Main Challenges

It is well known that unemployment is a main factor which is associated with greater poverty risk. According to calculations made under the ILO methodology there were more than 281,100 unemployed in 2007 or 6.5% of the active population.

Considering the importance of increasing employment opportunities in order to improve the population's welfare, under the State Program on Socio-Economic Development of Regions for 2004-2008 and other relevant programs about 672,000 new jobs were created.

Business development and creation of job places in this period have contributed to implementation of the well thought employment strategy and social policy. Last 5 years nominal cash incomes of the population increased 2.5 and reached to 14.3 bln. AZN in 2005 or 1,690.3 AZN per capita. Cash incomes of population included wages (31.9%), business profits (50.4%), received current and considerable remittances (17.2%) and income from property (0.5%).

The government employment policy provides support to the unemployed through a combination of active and passive measures. The passive measures mainly include the provision of unemployment benefits. In 2007, 2,523 unemployed received unemployment benefits minimum amount of which is 24 AZN. The active measures include organization of training courses and job fairs and many other activities aimed at creating and improving labor market and adjusting labor force to the economy needs.

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

It is also important to ensure that employees' rights are protected, and that there is reliable and regular data to allow monitoring of the labor market and employment situation.

The improvement of wage regulation is another challenge. As was shown in the poverty results reported in Chapter 2, employment does not always protect individuals from poverty, due to the high number of low-paid and low-productive jobs. In recent years, a policy of increasing a

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

Another problem relates to significant discrepancies between wage levels of those occupying the same positions in the public and private sectors. Thus in 2007 the average monthly wage in public sector was 171.9 AZN and 296.5 AZN, i.e. 1.7 times higher in private sector.

Table 5.1. Average nominal monthly wages in different sectors in 2006-2007 in AZN

	State		Private	
	2006	2007	2006	2007
Education	86.4	144.9	128.8	186.0
Health and social services	67.2	92.5	150.7	160.7
Construction	198.1	298.7	403.8	454.2
Mining industry	349.4	515.5	1,183.2	1,414.8
Generation and distribution of electricity, gas and water supply	134.3	210.3	272.9	198.4

As Table 4.1 shows, wages of people working in private health facilities are 1.7, education – 1.3 times, construction – 1.5 times and mining industry – 2.8 times higher than those working in public ones. This leads to the flow of more skilled staff from public facilities to private ones and has a negative impact on quality of services.

5.1.3. SPPRSD and Employment Policy

The SPPRSD envisages activities in the following priority directions under the employment policy and labor market regulation:

- developing the employment system and strengthening the social protection of the unemployed;
- adjusting the training of specialists to labor market needs;
- improving the regulation of labor relations;
- strengthening labor market monitoring;
- expanding employment opportunities of the vulnerable groups.

As regards developing the employment system and strengthening the social protection of the unemployed, State Programme on Implementation Employment Strategy for 2007-2010 was approved on May 15, 2007 under the Presidential Decree #2167. Within the framework of activities envisaged by this State Programme the management system of the State Employment Service will be improved, and the legal and regulatory framework for employment and work safety upgraded. Also, a single information database will be created to expand regular access of jobseekers and unemployed to vacancy information, and related awareness-building measures carried out among the people. At the same time, new consulting services and labor exchanges will be established. More official attention will be given to the vocational trainings aimed at providing job for the unemployed.

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

As for *adjusting the training of specialists to labor market needs* by his Decree #2282 dated of July 3, 2007 the President of the country approved the State Program on Development of Vocational Education in the Republic of Azerbaijan for 2007-2012.

It is important to implement following measures in the vocational education section under SPPRSD:

- establishing direct relations between vocational education system and employers and training of specialists required by employers;

- launching creation of the National Specialities Structure (NSS) based on the European system of specialities, comparable internationally and with national context shaped by the development of local economy and social sphere.

NSS is a locally and internationally accepted multistage system used for measuring the training results (both formal and informal) which are interrelated and where ratio between all education and training diploma/certificates is established, i.e. interrelated achievements made by trainees and graduates are measured through certificates and diplomas.

In this sector a forecasting system will be established and marketing services organized in the educational institutions training skilled workers.

Also, in order to develop the adult education system, the appropriate legislative framework will be prepared, a body of adult educators formed, new curricula developed, and resource centers organized for career-guidance and awareness-building purposes.

The adult education system will cover the following directions:

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

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

As regards *improving the regulation of labor relations*, an Action Plan will be developed and implemented for legalization of informal labor relations, as well as, control over conclusion of collective agreements and contracts strengthened. Such issues as provision of employment and social protection of workers will be further focussed in the above mentioned agreements and contracts.

Minimum wages will be gradually increased up to the national subsistence minimum and since 2011 it will exceed that minimum. It will become a substantial factor in elimination of the poverty risks.

The wage system for staff of budget-funded organizations will be improved with consideration of enhancement their financial autonomy and responsibilities as well as promotion of final outcome of this system in order to eliminate disbalance between wage levels aimed at improving overall wage policy. Measures related hereto will be aligned with those one in Chapter 4 of the SPPRS that cover introducing normative (per capita) financing in fiscal policy.

Also, wage supplements for geographic location and other difficult working conditions will be introduced, and principles identified for unification and payment of wage supplements and bonuses to staff in the public sector.

As for strengthening the labor market its regular monitoring will be carried out, and a national information system on the labor market, employment, labor safety regulations and standards established in order to help flexible policy making in this area. Furthermore, labor migration management system will be improved.

As concerns *expanding employment opportunities of the particularly vulnerable groups*, an Action Plan will be prepared for the development of entrepreneurship and self-employment among women and their retraining, also business training programs will be arranged, and measures introduced to improve labor conditions and social protection of those employed in the private sector, especially women. At the same time, an Action Plan will be prepared to improve gender equality in those sectors where there is a clear gender imbalance, and new jobs created for the population groups in urgent need of social protection. For this purpose, the ILO Convention on employees with family responsibilities will be ratified and the national legislation adjusted to the Convention.

5.2. Social Protection of the Population

5.2.1. Link to Poverty

International experience suggests, while long term poverty reduction will be achieved through economic growth coupled with increasing employment and income generating opportunities in all regions of the country and different sectors of the economy, there will always be vulnerable members of society who will depend on the state system of social protection to help protect them from poverty. The state has a duty to offer these vulnerable groups effective social protection. Social protection is one, but not the only, mechanism for ensuring that some of the country's wealth is redistributed from the richest to the poorest sections of society.

It should be noted that social protection cannot offer any long term solutions to help vulnerable to exit from poverty. International experience suggests that disproportional oversaturation of the social protection sector generate dependency syndrome among people. As a result it affects economic activity and impedes development.

In the wide sense there are 3 main elements of social protection. One is a social insurance element, which is designed to help citizens prepare for times in their lives when they will not be able to earn their own living, e.g old age, sickness, and unemployment. Social insurance pensions or benefits are based on payments/contributions made by individual citizens during their working years, with some contribution from employers.

The other element of the social protection is a social assistance system which consists of targeted state aid and social allowances and is material support paid from the state budget for those who have no insurance, other sources of income or their income is below the established rates.

The third element of the social protection is a social assistance and special social measures system addressed to the especially (socially) vulnerable population groups, i.e. IDPs and refugees, children deprived of parental care, disabled and children with limited health, old and alone citizens, etc.

5.2.2. Current Situation and Main Challenges

Important measures have recently been undertaken in Azerbaijan to bring the social protections system in line with modern requirements. As a result of these purposeful measures the separation of the insurance and pension system from the system of social assistance benefits was achieved in 2006.

There were approximately 1.25 mln. pensioners (14.4% of the population) in Azerbaijan at the beginning of 2008. Of these, 821,000 received old-age pensions, 291,000 disability pensions, and 137,000 loss of breadwinner pensions. Important measures have recently been undertaken in the country to improve the management of the state social insurance system and to ensure that the pension system is based on real social insurance principles.

This has involved changes in the way in which social insurance contributions are set and collected, introduction of individual records for the insured, and reform of the management of

the pension system (collection and payment) has been concentrated in one single agency. According to the new Law on Employment Pensions enacted in 2006, the total sum of old age pensions consists of basic, insurance and saving parts and it conforms to the advanced system that has already justified itself.

Last years the basic part of employment pensions has been increased on regular basis and under the relevant Decree of the President of the Azerbaijan Republic since January 1, 2008 it amounts to 60 AZN.

Furthemore the process has started to introduce individual records for the insured and to collect compulsory state social insurance fees at individual insurance accounts. Core of the new employment pension system is to proceed with pension provision of people basing on individual records combined with insurance fees paid by them.

The plastic card system has already been introduced in the country to pay pensions. According to official data of early 2008, about 80% of pensioners use such cards to get pensions from bankomats.

Nowadays quoting and paying mechanisms of basic and insurance parts of the employment pension are successfully applied. One of the upcoming main challenges is introducing saving parts, i.e. 3rd part of employment pension. Recent and rapid growth of the financial market promotes to such a development.

At present a main part of pension paid to pensioners is a basic one. For this reason, it is necessary for pensioners to have other sources of income in order to protect themselves from poverty. Pensioners, living in households with more than 1 member, can benefit from the redistribution of income within the household and thereby, escape poverty. But the poverty risk is higher for those living in households, where the pension is the primary or the only source of income.

Another important goal set out is to ensure that in the nearest future basic part of pension will exceede the national subsistence minimum. Pension of those who retired in 1990s is small one and it violates principle of social equity between this category of pensioners and those who retired in different years. Though the problem would be mitigated if to rise basic part of their pension its entire solution implies fair integration of people who have retired in ex-pension system into new insurance and pension relations.

Targeted social assistance. Efforts began in 2002 to develop a mechanism for targeting social assistance and by the beginning of 2006, the relevant legislative framework was developed, and institutional changes had been made for its implementation. Since July 2006 targeted social assistance is provided with initial eligibility criterion established at level of 30 AZN and brought to the level of 45 AZN in early 2008.

Though targeted social assistance is a new asset in the social protection system of the country, experience gained in this area indicates on its efficiency in poverty reduction. According to the data for early 2008, 78,092 families or 364.059 person received targeted social assistance. Amount of this assistance per one person was 17.38 AZN.

Measures are systematically taken to improve mechanisms of targeted social assistance. These measures include regular increasing of eligibility criterion, simplifying targeting and paying procedures, expanding coverage and extension of receipt period. In addition increasing transparency in targeting social assistance and ensuring more active involvement of civil society in this process are among important issues at present.

Targeted social assistance is a service provided by the government to households below the poverty line and an influential mechanism to eliminate risks of such households. However it has

a temporary nature and does not secure people from poverty. At current stage it implies providing social services to households living in abject poverty and also introducing mechanisms to find a way out of this situation. From this prospective in addition to the targeted social assistance vocational and specialized education as well as employment oriented social rehabilitation programs should be offered to and implemented for the low income families.

Social benefits. The social benefits system has been functioning in our country since 2006 when the Law of the Republic of Azerbaijan has been enacted. According to the data of early 2008, there are 275,402 recipients of social benefits in the country. The average amount of monthly benefit per capita was 23.35 AZN.

Social benefits are paid to those who are not entitled to receive employment pension and used to maintain their minimum living standards. But unlike targeted social assistance, benefits are not allocated basing on need and individual targeting principles. For this reason in some cases social benefits do not go to most vulnerable but to recipients who are actually not in need of such benefits. This factor harms efficiency of social protection function of the country in addressing a part of its values to the low-income strata of population. For this purpose social benefits should be regularly monitored, its list upgraded and optimized in the context of effective social protection of the population.

Social protection of the most vulnerable population groups. The most socially vulnerable population groups include those whose living conditions and welfare standards abruptly deteriorated for certain reasons like in case with IDPs and refugees; who are under grave social risk for the physical or social-demographic reasons; and who are in need of state care (disabled and children with limited health, children who have lost their parents or been deprived of parental care, old and alone).

Social protection of IDPs and refugees are outlined in section 5.3 of the SPPRSD.

Last years effective measures have been carried out to improve the welfare as well as living and working conditions of the most socially vulnerable population groups. Activities aimed at rehabilitation of the disabled and improvement their living conditions are widely implemented. It is important to continue this work in future.

One of the principal issues in this context is to benefit from cooperation with public agencies and all society, to prevent social exclusion of the most vulnerable population groups and to ensure their re-integration.

A number of important documents has been adopted in Azerbaijan last years to strengthen social protection of the most vulnerable population groups. The State Program on Enhancement of Social Protection of the Elder Population approved by the Presidential decree #1413 dated of April 17, 2006 envisages improving social services to provide better social protection to old and alone, increasing a level of social, personal and health services provided to old living in custodial institutions and nursing homes as well as undertaking relevant measures to develop physical and technical resources of such facilities.

Social protection of children in institutions and those one who deprived of parental care is in focus of permanent interest. However international experience suggests that being brought up in an institution and deprived of parental care can have long term detrimental effects on the child's development. A State Program on De-institutionalization and Alternative Care for 2006-2015 has been approved by the Presidential Decree #1386 on March 29, 2006 to decrease the number of children in these institutions, provide them with material support and ensure that they are brought up either in their own families or foster families.

There have been significant changes in number of children in boarding schools and children homes in recent years. Thus, the number of children in child institutions decreased from 23,500 in 2003 to 16,900 in early 2007. During this period, the number of children in nurseries and children homes decreased from 922 to 875, in boarding schools for children deprived of parent's care from 516 to 450 and in boarding schools of general type from 18,900 to 12,600. At the same time, the number of children in special boarding schools for children with limited health decreased from 2,933 to 2,860 and in boarding schools for mentally retarded children from 359 to 300. Further activities in this direction will be undertaken in the future. However the process of bringing up children, particularly those one with limited health to the foster families environment has to be under strict control of the government.

5.2.3. SPPRSD and Social Protection

The following priority directions have been defined in the social protection sector for 2006-2015:

- improving the social insurance system and pensions;
- improving the system of targeted social assistance and social services;
- enhancement social protection and integration of the most vulnerable population groups.

Under *improving the social insurance and pensions system*, the legislation on management of compulsory state social insurance fees, and the management of the system of insurance and pensions will be improved. As a result of activities carried out in this direction coverage are of new pension system and insurance principles will be expanded and concrete steps will be made to eliminate old system created differences between various groups of pensioners.

At the same time real collection component will be gradually introduced in pension provision. For this purpose assessment and preparatory works will be continued, legislative framework developed to apply rules and terms for investing real non-state resources as well as to establish and regulate activities of non-state pension funds.

Activities will be carried out to ensure financial sustainability of the insurance and pension system, and comprehensive actuar calculation based forecasts will be designed.

Basic pensions will be gradually adjusted to the national subsistence minimum by 2010 under the SPPRSD. Since 2011 basic part of the employment pension will be established at level exceeding subsistence minimum.

As a result of efforts to develop insurance and pension system assesment and preparatory works will be continued to introduce gradually real collection component in pension provision, while elimination of old system created differences between various groups of pensioners and further strengthening of social insurance principles will remain in focus of attention.

Under *creating and improving the system of targeted social assistance and social services*, the legislative framework of targeted social assistance will be revised and the management structure improved, an information network created for centralized management of targeted social assistance, and the capacity of the personnel responsible for administering the targeted social assistance mechanism improved. The eligibility criterion will be reviewed and relevant funds allocated in the State Budget in order to gradually bring this up to the national subsistence minimum. At the same time, a system of monitoring and evaluation of targeted social assistance will be established. In order to reduce poverty risks of low income families targeted rehabilitation programs will be implemented as well as required legal and regulatory framework developed.

Social benefits system will be updated on regular basis and structure of these benefits will be opimized in the context of social protection efficiency.

Under improving social protection and speeding up social integration of the most vulnerable population groups, monitoring will be conducted of the existing legislative framework, new housing provided to the disabled, existing regional rehabilitation centers strengthened and new ones established. Also, relevant measures will be carried out to install necessary facilities in houses, vehicles and public places in order to create enabling living and working conditions for the disabled and children with limited health. In addition current social services system will be improved to provide better social protection to the old and alone. At the same time, research will be conducted into the current child labor issues and a relevant action plan prepared and implemented. Monitoring of children's welfare in child institutions will be improved, and an action plan developed for improvement of social integration of abandoned and street children. Implementation of the state de-institutionalization programme will go ahead, financing of SOS-Children's village project for sustainable social integration of orphaned and abandoned children from the State Budget begun, and "SOS-Youth" centers created on the basis of the same model. An action plan to strengthen social protection for young adults leaving institutions upon reaching the age of maturity will be developed and implemented.

5.3. IDPs and Refugees

5.3.1. Link to Poverty

As a result of the military aggression against Azerbaijan which began in 1988, 20% of the territory of the country has been occupied. As a result, 60,000 Azerbaijanis from Nagorno Karabakh and over 600,000 Azerbaijanis from adjoining regions have become IDPs. At the same time 250,000 Azerbaijanis from Armenia were deported and driven out from their homes to Azerbaijan as a result of the planned policy of ethnic purging. Additionally, about 100,000 Azeris living in the districts of Nakhchivan Autonomous Republic and Aghstafa, Tovuz, Aghjabadi, Gadabay and Tartar regions bordering on Armenia were obliged to leave their place of permanent residence due to the danger to their lives. They are currently living in 1,600 temporary accommodations in 68 cities and regions of the Republic.

The refugees and IDPs represent a particularly vulnerable group of the country population. Lack of a permanent solution to the conflict has meant that most IDP families have been living in temporary and unstable conditions for many years. A particular action plan is required to implement in order to reduce the vulnerability of members of this group to different forms of deprivation: material, education, health, food insecurity/malnutrition, housing, and social exclusion.

5.3.2. Current Situation and Main Challenges

For many in the IDP population, housing has been one of the worst aspects of deprivation experienced since they were forced to leave their own homes. Many families still live in temporary accommodation, often with no proper sanitation or running water. This has meant that IDP households are more vulnerable to infectious diseases and other health risks, especially those who found temporary accommodation in the central regions of the country. Part of the IDP and refugee population was provided with accommodation immediately after the start of the conflict. More recently, the Government has taken important measures to transfer IDPs living in overcrowded or unsanitary accommodation to new settlements and all tent camps have been demolished by late 2007.

According to the information provided by the State Committee on Refugees and IDPs only 92,900 (about 31.7%) out of the 286,361 working age members of the IDP population were officially employed. Data on unemployment rates in the country shows that the IDP population dominates among the unemployed. It suggests that many have found employment in the informal sector, which means that they are not entitled to social security benefits.

Poverty level among IDPs - as with the overall population - appears to have been decreasing in recent years. However alongside with this there is quite a lot of differentiation within the group, with some extreme poor, and others not worse-off than the non-IDP population. Thus, according to the SPPRED, the poverty incidence among IDPs was 35% in 2007, compared with 63% in 2001. The highest poverty incidence among IDPs and refugees is observed in rural settlements. While in urban areas, their poverty level is almost the same with that of the local population. This suggests that employment opportunities are higher in urban areas. Limited opportunities in access to land very much influence the employment status of IDPs in rural areas.

The Government has undertaken some measures aimed at increasing IDPs' access to basic health services, including exemption from fees for all services provided by the state health facilities; exemption from payment for all medical products (for example, free medicines etc.) prescribed by state institutions; and full vaccination coverage of IDP children.

Although the majority of the school age children from IDP households are enrolled in schools, many have suffered from disadvantage due to the poor physical and technical resources available at schools at IDP camps (for example, lack of materials, equipment, limited desks, and shortage of teaching staff). The Government currently provides young refugees and IDPs with a number of privileges (for example, exemption from payment of fees for enrolment at paying faculties of the state higher education institutions, free use of campus infrastructure etc.) to encourage and support them to study in higher education.

The main overall challenge is to ensure that the IDP and refugee population does not suffer from deprivation to a greater or lesser extent than the rest of the population, and to ensure that they have equal rights and opportunities to participate in the social and economic life of the country; while also working on a strategy which will allow them to return to their original place of residence once a solution to the conflict has been found.

Social assistance provided by the government and other organizations is important in protecting IDP families from poverty. However, it is very important that assistance to IDPs is targeted properly, and reaches the truly vulnerable. This requires regular improved monitoring of the living standards and conditions of IDP households.

5.3.3. SPPRSD: IDPs and Refugees

In order to achieve targets set for IDP and refugees sector the SPPRSD envisages undertaking a number of policy measures in the following priority directions:

- returning IDPs to their places of permanent residence;
- increasing income-generation and improving employment opportunities of refugees and IDPs;
- improving access of refugees and IDPs to health and education services;
- increasing financial transparency in the provision of state assistance to refugees and IDPs;
- improving statistical database on refugees and IDPs.

Under *returning IDPs to their places of permanent residence*, de-mining and restoration activities in the liberated areas will be continued, and a new Repatriation Program developed in line with current circumstances.

Under *increasing income-generation and improving employment opportunities of refugees and IDPs*, they will be employed in the paid public works related to the construction of new settlements. The local access of entrepreneurs and farmers to credit will be expanded, small and medium enterprises supported through microcredit programs and business consultancy services, and training courses organized in professions and qualifications relevant to the labor market. In addition, providing employment to able-bodied refugees and IDPs through labor fairs will be strengthened, and the refugees and IDPs transferred to the new settlements will be hired to work in the public infrastructure facilities of the settlements on a paid basis. New facilities, workshops

and small enterprises will be constructed and created to process and sell products produced by IDPs engaged in farming activities.

Under *improving access of refugees and IDPs to health and education services*, they will be provided with free examination, treatment and medicines in health facilities, and relevant measures will be taken to improve sanitary-epidemiological situation in the areas densely populated by them. Also providing monthly subsistence allowance and food aid to IDPs families will be continued. However it should be continued on selective basis benefiting only poor IDPs.

Under *increasing financial transparency in the provision of assistance to refugees and IDPs*, meters will be installed in places densely populated by refugees and IDPs to ensure efficient use of water, gas and electricity.

Under *improving statistical database on refugees and IDPs*, annual surveys will be conducted to monitor the living conditions of refugees and IDPs. At the same time, the capacity of relevant organizations will be strengthened to improve the process of collection and monitoring of demographic and socio-economic indicators on refugees and IDPs.

Chapter 6

Human Capital Development and Social Policy

6.1. Education

6.1.1. Link to Poverty

Low levels of education increase the risk of poverty, limit the choice of employment opportunities, and the poor population's ability to exit from poverty. Access to knowledge and skills can have a significant effect on people's ability to find jobs and sources of income. Therefore for this reason the UN has declared the XXIst century as a century of education. Education is not only fundamental for human development, but it is also helps to empower people, and increases their ability to participate in and contribute to economic, political and social activities. On the other hand, poverty sometimes forces families to choose between education and satisfying basic needs. So they cannot afford the costs associated with the education of their children, or can only afford these by reducing the amount they spend on basic needs.

6.1.2. Current Situation and Main Challenges

The main challenges are to ensure equal access of children from different family backgrounds and living in different regions to equal quality of education services. Differences in access and quality are associated with different factors.

One major factor affecting access is the inability of parents to afford education materials, and another is the bad state of school buildings in some regions. Provision of state general education schools with free textbooks and construction of a number of new school buildings in recent years enhance access to education. It is necessary to continue policy efforts to reduce radically inequalities in access to education in the future.

Access to Preschool Education. It is generally accepted that pre-school education for 3-6 year olds has a beneficial impact on children's development, promoting social and cognitive gains for young children while also combating poverty by providing childcare which enables parents to work. Groundwork to convert material values to human capital is laid down at the preschool education facilities. In 2007 only 17.2% of the 3-6 year old age group was enrolled in pre-school education, including 27% in urban areas and 9% in rural areas. For comparison, it should be noted that 99% of school age children in Finland, 80% in Germany and 30-50% in some CIS countries were enrolled in pre-school education.

The Program on Development of Preschool Education in the Republic of Azerbaijan was approved by the Presidential decree #2089 dated of April 12, 2007. Program sets out goals on optimizing network and improving physical and technical resources of preschools, developing management based on new economic relations, introducing less expensive forms of providing preschool education for broadening access to low-income groups of population, improving teachers staffing, developing new curricula and increasing public status of overall preschool education. Moreover Program envisages enrollement of 5-year-old children in compulsory preschool education in line with the international experience.

Access to General Education. General education is the largest level of the education system in terms of coverage and scale. In 2007/2008 academic year 1.5 mln. students studied in 4,538 public and 17 private general education day schools of the country. Presently 45.5% of general education schools deliver lessons in 1 shift and 54.5% in 2 or 3 shifts, i.e. 74.3% of students study in the 1st shift and 25.7% in the 2nd or 3rd shifts. For the last 5 years 1,217 schools with 210,100 student seats have been constructed on the basis of state funding or other sources.

According to survey the financial difficulties of poor families has a negative impact on children's access to basic and especially upper secondary education. Usually, children from such families leave school due to their families' inability to buy them suitable clothes and education materials and in order to work and contribute to household income. The number of children leaving school is higher in rural areas. This is due to the pressure to help with agricultural production, and also for girls to marry early.

Vocational education. Vocational education has traditionally been an option for students who performed less well at the basic secondary level, and has tended to attract students from middle to low-income families. Overall it has had a low level of prestige, and drops in funding coupled with out-dated curricula have meant that the quality of education provided has been low. However, vocational education at all levels is important for the country to have a productive and flexible workforce. The ability of the workforce to move across sectors of the economy in response to the evolving demands of the market depends on the acquisition of skills that allow such a response.

5.2% of education expenditure from State Budget was allocated to the vocational schools and lyceums in 2008. Azerbaijan has, as in other CIS countries, a very low student-teacher ratio in all sectors of education. This is also the case in vocational education (8:1). However, as at other levels, teacher salaries are low, and this has a negative effect on teacher welfare and morale.

Currently 40-60% of secondary schools graduates in the developed countries continue their study in the vocational schools but in Azerbaijan share of such students is only 4.2%. In addition overall and sectoral economic growth rates indicate on soon rise in demand for specialists of primary vocational education. For this reason a dynamic education (including vocational one) system should be established that would allow to meet demands of the labor market on providing sectors of economy with skilled workforce. In this case main attention will be paid to standardization of requirements to the education outcomes and highest possible convergence of these requirements with the real and potential demands of the labor market. Therefore it is relevant to develop new approaches and criteria for evaluation vocational standards with consideration requirements of employers to the labor potentials of graduates of the vocational schools.

The main challenges facing the vocational education system can be summarized as follows: the existing curricula need to be updated in conformity with current requirements; there is a need for more textbooks in the Latin alphabet; teaching staff needs to be re-trained; there is a shortage of specialized teaching staff meeting modern requirements; facilities have inadequate access to

ICT; facilities and equipment do not meet modern requirements and; there is under-financing of this level of education.

Taking into account importance of the vocational education the President of the Republic of Azerbaijan approved the State Program on Development Concept of Vocational Education for 2007-2012. Main directions of this Program include enhancing physical and technical infrastructure of the vocational education system, formulating new economic relations, development of new management and skills, increasing public status and improving the content of the vocational education.

Higher Education. There are 42 higher education institutions, including 28 state (of which 6 special) and 14 private institutions functioning in Azerbaijan. Those institutions provide education to a total of 130.4 thousand students and employ 13.7 thousand teachers and professors as well as postgraduate level education covering 7,702 students functions in the country.

A series of targeted policy actions have been implemented to improve the higher education system in recent years. The state higher education standards and the base curricula for all subjects (disciplines) have been developed and approved. A legal regulatory framework has been established for certification and accreditation of higher and specialized secondary education institutions.

Serious steps have been taken to integrate Azerbaijan higher education system into the European higher education system. Azerbaijan was admitted as a member into the Bologna process at the meeting of the European ministers of education in Norway on May 19, 2005. In this regard, the Ministry of Education has taken upon itself obligations that are going to be implemented till 2010 and include development and adoption of new higher education legislative acts in line with the European rules and standards, implementation of higher education reforms in accordance with the Bologna process, active participation in programs initiated by European Council education and higher education research committees and support of exchange of information and experience schemes to speed up integration into the single European education system.

Based on idea to convert “black gold into human gold” growing attention is paid to one of the main directions on management of oil and gas revenues that implies investing in the human capital development including education (as well as in foreign countries) of high skilled specialists and upgrading professional level of local human resources for the country that states at present about its intention to ensure decent living standards in line with fair economic and social rules. In order to ensure effective managing of oil and gas revenues of the country, as well as developing human capital and increasing opportunities for young people of Azerbaijan to study abroad and become a strong asset in development of independent Azerbaijan on April 16, 2007 the President of the country signed Decree #2090 approving the State Program on Education of the Young People of Azerbaijan in Foreign Countries. This document envisages providing equal opportunities to all talented young people of Azerbaijan to study abroad and establishing single institutional system that will deal with legal and regulatory acts as well as with relevant management and logistic issues. Under this State Program in 2007, 45 persons were sent to the leading universities of the USA, France, the UK, Russia, Sweden, the Netherlands and other countries

One of the strategic areas of reforms in the education system is the transition from the command system to democratic models in the management of education, and the introduction of new mechanisms in this field. Some structural changes have already taken place and new units have been established in the Ministry of Education. The first steps towards defining the country’s overall education strategy have been taken, and efforts are being made to base policy making on analysis and planning, and to decentralize the management structure. One of the first steps in this

field was granting autonomy to 6 leading universities of the country. This process will be continued in the future. The introduction of training courses for education managers will help improve the management system.

The education budget was increased by 50.9% in 2007 compared with 2006, and education expenditure represented 11.9% of state expenditure. However state expenditure on education as a share of GDP was 3.2%. The existing mechanism for financing of educational institutions is not efficient and there is a serious need for its improvement. Educational institutions have almost no financial autonomy. There is a need to introduce per capita financing, rather than that based on norms, in order to improve the distribution and use of funds. One of the main directions of reforms carried out in the education system is to improve current financing mechanism and introduce modern model successfully applied in the international practice. Under the new model unlike the current one certain funds will be directed to the school that will independently decide how to spend them. In line with new legal and regulatory acts the School Councils will play a key role in this process and it will considerably enhance public nature of the management.

Since January 2007 the per capita financing mechanism has been introduced on an experimental basis in 59 pilot schools of Shirvan as well as Ujar and Ismayilli regions. First steps are made to introduce this mechanism enabling school managers to work independently and ensuring close involvement of parents in the decision making process, the results of the experiment will be analyzed in order to introduce this practice more extensively next years. Initial results have already been considered and decision has been taken to introduce new mechanism in 20 secondary as well as a number of vocational and specialized schools of the country.

Introduction of the advanced financing models will help to increase significantly salary in the education system. The quality of education is also influenced negatively by the low levels of wages in the education sector. In order to attract and retain high skilled, professional teaching staff there is a need to increase salaries and introduce additional motivation system. The average monthly salary in the education system was 143 AZN in 2007 thus representing 55% of the average monthly salary in the country. The low wages encourage teachers to ask for payment for individual tutoring and to retain them at work places in schools.

One of the main challenges in the education sector is the need to improve and update the curriculum for all levels of education. First steps have been taken within the Education Sector Development Project implemented under the 2nd Loan Agreement signed between the Government of Azerbaijan and the WB IDA. There is also a need to improve the level of teacher training, and content of training and retraining courses.

A key factor for meeting international standards in education is expanding the ICT use at all levels of education system. Under the Program on the ICT Provision to General Education Schools in the Republic of Azerbaijan for 2005-2007 approved by the Presidential Decree #355 of August 21, 2004, provision of computers and other to ICT equipment to general education schools has been prioritized. According to data of 2007, 65% of the secondary schools of the country were equipped with modern computers. At current stage it is required to enhance activities through achieving wider ICT use at all levels of education system. The State Program on Informatization of Education System of the Republic of Azerbaijan approved by the Presidential Decree #2856 of June 10, 2008 envisages developing network infrastructure at all levels of education system and providing access to high-speed Internet, establishing information and resource centres. The Program will also ensure training of specialists in modern technologies, creating evaluation and motivation system for innovative and creative teachers, developing comprehensive electronic teaching and methodological materials, establishing database on education resources, expanding the ICT use for effective management and monitoring of education system, designing single education portal to involve and raise awareness of society about current processes taking place in education sector.

One of the achievements made in this direction is that electronic teaching materials and audio-visual kits on History of Azerbaijan, Chemistry, Physics, Biology have been first time developed and provided to schools. This work will be continued in future. Another important step made to use ICT is “e-School Project” successfully implemented in the developed countries. This Project lays a groundwork for flexible management, strengthening of relations between parents and teachers, for oversighting school attendance rate and immediate informing about students achievements in schools. Since 2007 this Project is already implemented in 2 schools of Baku (Baku European Lyceum and secondary school #23).

One of the main challenges in education system is to monitor the quality of education through measuring learning achievements. In nearest future a system of measuring learning achievements of students will be fundamentally changed and already tested new models of in-school measuring with positive results will be introduced. Another principle issue is to introduce the standard measuring system for all the country. At the same time inequalities in access especially to upper secondary levels of school education could be better monitored through regular collection and publication of attendance rates (gender-disaggregated).

Another planned priority is to improve the legal regulatory framework for the education system. The main legislative act for the education system is the Education Law having some progressive aspects, was adopted in the first years of independence, and it does not reflect the current development prospects of the country, the ongoing education reforms, international practice and the process of integration with the world community. Adoption of the new law will contribute to acceleration of education reforms.

6.1.3. SPPRSD and Education

The following priority directions have been defined for the education sector to achieve the targets set out under the SPPRSD:

- ensuring equal opportunities to obtain education;
- improving quality of education;
- improving management and developing new economic and financing relations in the education system;
- expanding the ICT use in the education system;
- improving statistics and monitoring system of education.

Under ensuring equal opportunities to obtain education, provision of all students in state general education schools with free textbooks will be continued in the coming years. At the same time, the facilities and resources of educational institutions (preschool, general education, vocational and in-service institutions) will be strengthened, construction and rehabilitation of educational institutions carried out, and equipment and heating systems in general education schools improved. Also, general education school libraries will be enriched with literature in Latin script, summer recreation camps organized for children from poor families. System of free hot meals provision to primary school students will be developed and introduced and school transportation will be provided to students in rural areas. In addition, gender-related cases will be studied and an action plan developed and implemented to eliminate gender-based problems in vocational, specialized secondary and higher education.

Improving quality of education. In 2005 the Republic of Azerbaijan has joined to the Bologna process that envisages formation of single European higher education system and taken upon itself such obligations as updating higher education system and improving quality of education in line with European standards. In order to fulfill these obligations first of all content changes based on results of overall analyses have started. Recently content of training of bachelors has been sufficiently improved, duration of selected subjects on all directions and probation period extended, new generation of standards developed and approved, new attestation rules

established. As a result of these preparatory and logistics works since September 2006 the credit system has been introduced in 10 higher education schools for 30 specialities. Meantime proceeding from the established rules 5 higher education and 2 specialized secondary schools were accredited. After in-depth study of experience of the developed countries and with consideration of the national values the Cabinet of Ministers approved Concept of General Education (National Curriculum). Under this document since 2008-2009 academic year new subject curricula will be introduced in all general education schools starting with 1st grades.

In addition the Concept and Strategy of Uninterruptive Pedagogical Education and Teachers Training was developed and approved by the Cabinet of Ministers. Provisions of this concept envisage removing subjects that are not directly connected with programs on initial training of teachers, extending learning hours of subjects designed for practical training of teachers, prioritizing pedagogical practice, training of teachers specialized in two disciplines, incorporating into programs subjects that relate to the management of education.

In order to contribute to the practical training and acquiring skills on pedagogical communication and management by future teachers it is envisaged to deliver in Azerbaijan absolutely new subject "Basics of Education" that combines skills of learning Pedagogics, Psychology, Technique and active/interactive training technology as most important, in educational facilities of pedagogical bias. Introduction of this subject will promote to upgrading professional skills of teachers and smooth proceeding from theory to practice. The works are currently being continued in designing textbook on "Basics of Education" that will play a key role in teachers training.

In order to improve the quality of education and eliminate existing negative effects the centralized passing-out exams have been introduced in secondary schools of the Khatai district of Baku and Ismayilli region in 2005-2006 academic year as well as in the Sabail district of Baku and in Sumgayit in 2006-2007. Next academic year this system will cover all secondary schools of the country.

In order to expand access of children in need of special care to education and improve their learning conditions the Cabinet of Ministers of the Republic of Azerbaijan approved by its Decree #20 of February 3, 2005 the Development Program on Access of Children in Need of Special Care (limited health) to Education in the Republic of Azerbaijan for 2005-2009 and under this program physical and technical infrastructure and training resources of special boarding schools are enhanced as well as implementation of projects on inclusive learning continued.

Under improving management in the education system, the legal regulatory framework for the education sector will be improved, the development of new economic relations continued, the existing mechanisms of financing improved, per capita financing model introduced, a system of training of education managers established, the work of new parent-teacher associations strengthened and more general education schools will join these associations.

Under expanding the ICT use in the education system, provision of computers and Internet network to general education schools will be improved, as will the supply of general education schools with electronic teaching materials in line with new technologies. At the same time, distance education will be developed, electronic libraries established and high-quality specialists trained in modern technologies and information security.

Under improving statistics and monitoring of education, an education management information system will be established, the system for assessing pupil and student learning achievements improved, and regular information on net enrolment and actual attendance rates disaggregated by gender and region collected and published for all levels of education.

6.2. Health Development

6.2.1. Link to Poverty

Poor health affects an individual's potential to earn income, children's ability to attend and perform well at school and trainings and reduces chances of exiting from poverty. In fact, individuals with poor health are more likely to pass on their poverty to their children, and create a vicious cycle of poverty. Poor people often do not have enough financial resources to use the available health services, and this reinforces inequalities between the poor and non-poor.

Although low income is not the only factor contributing to child and maternal mortality, links between them are evident. Since women and children in poor families are less likely to have proper nutrition during pregnancy and early childhood, and less likely to have access to quality health services.

6.2.2. Current Situation and Main Challenges

Since independence Azerbaijan has suffered from a "double burden" of disease. In the one hand morbidity and mortality from infectious diseases characteristic of poor countries in the transition period has increased (e.g. TB, brucellosis), and also a high incidence of non-infectious diseases, characteristic of developed countries (e.g. cardio-vascular and circulatory diseases) has been reported.

Although 90% of reported illnesses come under the category of non-infectious diseases, the communicable diseases tend to be more prevalent among the poor population, due to the fact that such diseases spread under bad sanitary conditions. Since the late 1990s considerable progress has been made in halting the spread of communicable diseases, but the challenge now is to make this decrease sustainable.

The spread of HIV/AIDS is still in the "concentrated" stage, i.e. it is concentrated among particularly vulnerable groups, such as prisoners, drug-users, prostitutes, homosexuals, migrants. According to the data from the Azerbaijan Anti-HIV Centre the total number of people infected with HIV increased to 1,379 by the end of 2007. However tests are carried out on only a limited section of the population, and it is assumed that the number of the infected persons is higher than the number of those registered.

There is evidence of malnutrition and particularly micronutrient deficiency among some groups of the population. Anaemia is common among pregnant women and poses a threat to the healthy development of children. According to official data, the share of pregnant women with anaemia increased from 6.7% in 1990 to 20% in 2007.

Thalassemia, a blood disease, which usually occurs as a result of marriages between relatives, has been increasing in recent years, with the number of cases rising from 361 in 2002 to 1,267 in 2005.

Although the increase in non-communicable diseases can in many cases be attributed to the increase in stress due to war, poverty and environmental changes; some preventive measures such as increasing the awareness of the importance of healthy lifestyle can also be effective in tackling this. Overall, raising knowledge of the population on the importance of good nutrition, proper hygiene, breastfeeding, and the dangers of alcohol, smoking, unsafe sex, use of abortion instead of safe contraceptive methods, and inadvisability of marriage between relatives to avoid adverse consequences contribute to prevention.

Apart from stopping the spread of communicable diseases, and introducing more preventive measures to limit non-communicable diseases, another major challenge for the sector is ensuring equal access to basic health services. This is related both to the need to halt the spread of communicable diseases, and to improve the overall health status of the population. Inequalities in access are often caused by the cost of using the health services. Despite the fact that the major

health services in the state health institutions in Azerbaijan are officially free of charge, the low level of salaries in the health sector leads the service providers to ask for informal payments from the patients. And this limits the access of poor people to health services. As a result, the poor often try to treat their illnesses with traditional methods, use medicines without getting a prescription from the doctor, or they use health services but cannot afford to complete the full treatment, or to buy all the medicines prescribed by the doctor. This situation leads to a further deterioration in their health status, and makes the treatment even more difficult and expensive. The problem of access is thus related to the task of improving good governance, tackling corruption, while also improving the salaries of health sector workers.

The cost of hospital services has a negative effect on maternal and child mortality rates. Since women from poor households cannot afford to pay the informal costs at maternity wards, they sometimes prefer to give birth at home, which can increase the risk of complications going untreated. Compared to 2003 the post-natal, complicated delivery and abnormal pregnancy mortality rate among parturient and pregnant women increased twice.

It is also important that all members of the population have equal access to emergency health services, and that, in the case of epidemics, the poor population have services to which they can turn. For this reason, it is important that the emergency health services throughout the country are accessible and also important for strengthening control over the spread of communicable diseases.

Apart from access, another challenge is the quality of health services provided to the population. Facilities are on the whole available in all areas of the country but, apart from the informal and formal costs of using them, there are problems with the quality of buildings, equipment and services provided by medical staff. The quality of health services is not uniform, and leads to inequalities between urban and rural areas. The challenge is therefore improving the quality of the health services offered. This requires firstly greater public investment to ensure that all regions have equal quality of services. Relatively low share of GDP, less than 1%, was spent on health in 2007. It is even less than in some developing countries.

The Concept Paper on the Health Financing System Reforms and Introduction of the Compulsory Medical Insurance in the Republic of Azerbaijan approved by the Presidential Decree #2620 of January 10, 2008 envisages changing current management mechanisms on funds allocated by government to health sector, establishing new economic framework for financing and introducing compulsory medical insurance. It will promote, on the one hand to effective use of public funds allocated to health sector in coordination with population health needs and, on the other hand, to establishment of new financing sources and to increasing of overall transparency in this system.

The quality of health care also depends on the professionalism of, and training provided to, health staff. For this reason, it is important that medical courses in higher education institutes be revised and improved.

Another challenge is to ensure that sufficient funds are allocated for preventive measures, and not just for treatment of diseases. For communicable diseases among children this means, for example, ensuring that funds and equipment are available for delivery of full immunization coverage and for other communicable diseases, there is a need to increase knowledge and awareness, for example, through the Directly Observed Treatment Short Course strategy for TB and other infectious diseases.

A challenge related to the economic development (public investment) sector, is that of improving access to safe drinking water. Lack of access is a threat to the lives of infants who are being fed milk formula mixed with water (at present only 32.6% of infants are exclusively breastfed up to three months). Child mortality and morbidity are also caused by diarrhoea, resulting from use of

unsafe water. It is also a factor contributing to the spread of parasitic diseases among children. According to a recent study by the WFP and the Ministry of Health, 31% of primary school children were infected with intestinal parasites.

According to aforesaid the overall challenge for the sector can be formulated as ensuring equal access to good quality and affordable health services, while increasing preventive measures.

6.2.3. SPPRSD and Health

In order to achieve targets set for the health sector SPPRSD envisages implementation activities in the following priority directions:

- 1) strengthening primary health care services;
- 2) expanding access to health services through improvement of physical and technical resources of the health sector;
- 3) improving health sector management and reforming health sector financing;
- 4) promoting a healthy lifestyle among the population;
- 5) improving sanitary and epidemiological control and emergency preparedness;
- 6) improving medical education;
- 7) strengthening public health monitoring.

Some priority directions from other sectors are also relevant to this one. Namely Economic Development (budget and infrastructure), Good Governance (public administration reform and anti corruption), IDPs and Refugees (ensuring access to health services), Gender (maternal welfare and teenage marriages), Youth (access to youth-friendly services, and promotion of healthy lifestyles) and Environment (reducing the impact of pollution on the population's health status) may be shown as example.

Under *strengthening primary health care services*, through reforming the health care system the existing primary health care services will be improved, the poor families provided with free basic drugs, birth safety and basic care to the newborn improved. Furthermore prevention of periodical childhood diseases will be strengthened, immunization against communicable diseases on the basis of full state funding ensured, and prevention and treatment of malaria, tuberculosis, brucellosis, helminthiasis, diabetes, cancer, chronic renal failure, haemophilia and thalassemia enhanced. Performance of centers for family planning and reproductive health including the delivery of high-quality contraceptives will be improved, and a country-specific model to establish a family medicine system designed and introduced within the SPPRSD.

Under *improving the physical and technical resources of the health sector*, repairs in existing health facilities will be continued, new health facilities constructed and put into operation and the supply of modern medical equipment improved.

Under *improving health sector management*, evidence-based analysis will be provided to assist policy decisions on the conceptual development of the sector, training of health sector's managers improved; in line with the Concept on Financing Reforms in the Health Sector and Introduction of Compulsory Health Insurance of the Republic of Azerbaijan the current financing mechanism will be improved to rationalize health budget allocations, transition to the patient-based funding principle implemented, a system of paid services developed and obligatory health insurance system created.

Under *promoting healthy lifestyle among the population*, preventive measures to halt the spread of HIV/AIDS and sexually transmitted diseases (STD) among the general population and especially among high-risk groups will be increased, preventive measures undertaken to reduce incidence of anaemia among pregnant women and adolescent girls and to raise public awareness about the health risks of marriage among close relatives and early pregnancy, as well as the

importance of proper nutrition and other related issues. At the same time, the anti-drug, tobacco and alcohol campaigns will be expanded.

Under *improving sanitary and epidemiological control and emergency preparedness*, the performance of relevant health agencies involved in the management of emergency health services will be improved, capacity of the personnel at the sanitary and epidemiological services increased, and physical and technical resources of regional Hygiene and Epidemiology Centers modernized.

Under *improving medical education*, new curriculum and teaching methods will be introduced in higher and secondary medical education, a new course established for training of family doctors in higher medical institutions, and postgraduate courses for doctors and paramedical staff improved.

Under *strengthening public health monitoring*, the current public health monitoring legislation will be reviewed for adjustment to EU standards, a single centralized information system on public health monitoring established, and a Digital Health Card system introduced for the population.

6.3. Environment

6.3.1. Link to Poverty

The condition of the environment can have direct and indirect impacts on the welfare of the people. Air and water pollution have direct impacts on the health status of the people. In the health sector above it was noted how lack of access to safe drinking water contributes to infant and child morbidity and mortality rates. Air pollution also leads to an increase in respiratory diseases among children. Indirect impacts include those caused by deforestation, erosion of the land or salinization, as this affects the land available for cultivation and income-generating activities for the rural population, and thus contributes to income poverty. Sustainable management of the country's natural resources is vital for this and future generations.

6.3.2. Current Situation and Main Challenges

Most of the environmental problems facing the country are the result of previous industrial and agricultural development, which was carried out without consideration of environmental sustainability. The occupations of a large part of the country and the displacement of people from their permanent place of residence have further aggravated the environmental protection problems, due to increased pressure on available arable land, irrigation systems, and waste management.

A number of important documents on country environment has been approved by relevant decrees of the President of the Republic of Azerbaijan. Some of them like National Program on Environmentally Sustainable Social and Economic Development in the Republic of Azerbaijan for 2003-2010, National Program on Reforestation and Aforestation in the Republic of Azerbaijan for 2003-2008, Comprehensive Action Plan on Improvement of Environmental Situation in the Republic of Azerbaijan for 2006-2010, etc. are currently being implemented. Meantime due to its importance sustainable management of environment will remain in the top agenda of the government as a priority.

Land. As a result of deterioration of land cover, land erosion and salinization processes occur, which, in turn, affect agricultural production and the ability of the population to use the land for income generation. 59.8% of the Republic or 671.2 thousand hectares have been exposed to middle and severe types of erosion. The Ganja-Gazakh and Shaki-Zagatala areas suffer from erosion related to irrigation.

The amount of land being used for agricultural purposes is increasing, and this increase is taking place at the expense of non-agricultural lands. As a result of the break up of former kolkhoz, sovkhos and other agricultural enterprises, some land-reclamation and irrigation systems and installations are in a state of disrepair and no longer used. This, in its turn, has contributed to deterioration in the reclamation status (irrigation and drainage systems) of the land. Thus, according to data from reclamation cadastre for January 1, 2005, 165.2 thousand hectares of irrigated lands have been exposed to middle-level salinization, while 103.7 thousand hectares have been exposed to high-level salinization. In addition, the winter pastures of 1,393 thousand hectares in the country have been exposed to different degrees of salinization, and an increase in the level of underground waters has been observed in some of the regions over the past years.

One of the main reasons for soil erosion in the country is the rapid deforestation of some areas. It should also be noted that one of the main reasons for unregulated deforestation is the increased demand of the households for fuel. In particular, the power supply problems in some regions forced residents to use firewood for heating, thus aggravating the country's environmental problems, while possibly increasing health problems among household members due to use of a so-called "dirty fuels" for heating homes. The proper planting of trees in both government and private sector lands, in accordance with the National Forestation Plan, could facilitate the improvement of the protection system of river basins and the preservation of the biological diversity.

Many areas of the Kura-Araz lowland and the Absheron Peninsula suffer from the emission of pollutants by local industry, and heavy metals and persistent organic pollutants accumulate in soil and food in the area. On the Absheron Peninsula, about 10,000 ha are contaminated by oil, which also has a negative effect on the natural biotopes and contributes to desertification.

Air. The total amount of air pollutants from stationary and mobile sources in the country have been decreasing, due partly to the economic decline of the early 1990s. While the total amount of air pollution from stationary sources was 2.1 mln tons in 1990, in 2006, the figure was equal to 344 thousand tons. But, the recent upturn in the economy has led to an increase in the amount of air pollutants. The air pollution is most serious in Baku, the capital city, and also in other large cities including Sumgait – the centre of the chemical industry. Power plants, industrial facilities and transport all contribute to air pollution.

Transport is the main source of air pollution in many cities. While the total number of registered cars was 271,000 in 1995, the number increased by 2.3 times and reached 616,900 in 2007. The old stock of cars, poor check and servicing of cars, together with low-quality fuel all contribute to increasing the levels of air pollution. 61% of all air pollutants are emitted by motor transport. 79% of stationary sources of air pollution are located in Baku.

As a result of recent increase in oil and gas production, refinery and use in Azerbaijan, volumes of pollutants emitted into atmosphere are rising. Compared to 2002 volume of relatively hazardous industrial wastes came up thrice in 2006. In early 2008 about 1.7 mln tons of hazardous wastes were stocked at the country enterprises. According to data of survey carried out by MENR in 2007 every 3rd enterprise covered by survey emits pollutants exceeding acceptance limits.

Because of obsolete or non-existent technology and equipment for the purification of stack gases, the oil and gas industry is a major emitter of sulphur, carbon and nitrogen oxides. Most emissions originate from the flaring of fuel in the heaters. From this prospective oil refineries are in need of modernization. Recently, emissions were reduced through the installation of modern equipment. Moving plants and factories especially with obsolete equipment to suburbs, full running of gas and dust traps at industrial enterprises, installing gas neutralizers in engines of

motor transport, using clean fuel may contribute significantly to reduction of hazardous pollutants emitted into atmosphere.

Approximately 80% of the country's power capacity comes from thermal stations powered by residual fuel oil, and by natural gas. Built during the Soviet era, Azerbaijan's power infrastructure is generally in poor condition. About half of the turbo-generators and boilers have been in use for more than 40 years. It resulted in high fuel consumption, low thermal efficiency and high emissions. Because of the country's inefficient distribution network, much of the generation is lost in transmission. The thermal power plants are largely fuelled by oil and emit mainly NO_x and SO₂. For this reason a goal was set for the energy sector to switch eventually all thermal power plants to natural gas fuel. In this regard putting into operation a new 400 MW natural gas-fuelled expansion for the Shimal (North) Hydro Power Plant as well as modular power plants in Astara, Shaki, Khachmaz and Nakhchivan has contributed to a reduction in the emissions of NO_x and SO₂. Construction of a new 506 MW Sumgayit power plant is going to be finalized soon. 780 MW Janub (South) Power Plant will be put into operation in Shirvan in 2009.

In order to tackle air pollution, it will be important that capacity in regulatory bodies is built up to ensure that environmental sustainability principles are incorporated and prioritized in all economic development planning programmes and activities. In addition mechanisms for controlling and reducing emissions from means of transport will also have to be devised and introduced.

Water and Sanitation. Due to the small number of water sources in Azerbaijan, there are serious problems with water supply for both the population (private use) and the agricultural sector. The problem is not limited to the small number of water sources. There are also problems emerging from the wastefulness of water consumption and the poor technical state of repair of the water-supply infrastructure.

Another important issue related to the water supply of the population is the quality of water. According to data of survey carried out by MENR, both enterprises monitored because of pollution of water ponds discharge more pollutants to these ponds than it is provided by acceptance limits.

HBS data show that 90.3% of households have access to sanitation. 91.1% of these households are without but 89.8% are with children. Analysis of data related to the household size show that larger household lesser access to sanitation. So 94.3% of households with 3 members and only 88.9% of households with 6 or more persons have access to sanitation.

Substantial measures have been taken last years for better water supply of rural and urban areas of the country and wider access of households to sanitation. In order to supply Baku with potable water of high-quality Oghuz-Gabala-Baku water pipeline is under construction. Water purifiers were installed in 50 villages experiencing difficulties with water supply. Installation of such purifiers is going to be finalized in more 50 villages. At present "Azerbaijan Rural Investment" is implemented in 3 zones of the country: Duzan-Shirvan, Mughan-Salyan and Nakhchivan. 134 km of water and 21.2 km of sanitation pipeline were constructed in 2007 in these regions.

The water source for three quarters of the population of the Republic of Azerbaijan is Kura River, and most of the water coming into Azerbaijan passes through Georgia and Armenia. Discharge of non-purified waste waters from Georgian and Armenian cities into the Kura river has a negative impact on its hydro-chemical condition and thus on the quality of water. There is a need to find a regional solution to this problem, and to work together with international organizations to purify waste waters discharged into Kura and Araz rivers from Armenian territory (amounting to 350 mln. m³ per year) and Kura river from Georgian territory (amounting to 320 mln. m³ per year).

Biodiversity. The Republic of Azerbaijan has a rich potential for development of fishery. This relates both to the increase of natural stock of precious types of fish and their use and a new area for the economy of the country – artificial fish breeding in the Caspian Sea. There are both favorable natural conditions for the development and human resources to work in this area. However, the process has been poorly regulated, and it is now necessary to preserve and restore fish resources in the Caspian Sea and internal water basins and to increase economically significant biological resources.

The Azerbaijan portion of the Caspian Sea harbors about 120 species of fish, including 7 species of sturgeon. The challenge in this field is to find ways of preserving and increasing the sturgeon family. A sturgeon hatchery has been constructed in the Khilli settlement of the Neftchala region with the aim of increasing the number of endangered sturgeon in the Caspian Sea. In 2007 this sturgeon hatchery produced 8.28 mln. fingerlings of sturgeon species (Osetra/Sturgeon, sevruga/stellate sturgeon, Beluga/white sturgeon).

3 trout hatcheries were constructed in the Sheki region (Aydinbulag, Girkhrxbulag villages and part of Ayrichay water reservoir).

Further international cooperation is required to provide incentives for preservation of the fish resources, improvement of the fish ecosystems and development a new plant life for these types of fish.

Industrial and Domestic Wastes. Most industrial facilities in the country are currently operating with reduced production capacity, except for those in the gas and oil industry. The amount of industrial waste has decreased mainly for that reason. However, the obsolete production equipment used in the existing industrial enterprises continues to pollute the environment, and there are areas where there has been an accumulation of waste, especially hazardous waste, which poses a major threat to human health and the environment. In early 2008 about 1.7 mln tons of hazardous wastes were stocked at the country enterprises, out of which 1.2 mln tons were IVth degree slags from metal processing. For the reason of poor arrangement of works on transportation and disposability of wastes from large residential areas and industrial centres, illegal waste polygons polluting environment and feeding up pestholes have emerged in suburbs.

6.3.3. SPPRSD and Environment

Environmental sustainability is a cross-cutting issue, and environmental concerns were taken into account in other sectors, particularly economic development and education (raising awareness on environmental issues).

In order to achieving targets set for sustainable environmental management it is envisaged to implement activities in the following priority directions:

- sustainable management of forest resources;
- sustainable management of water resources;
- management of land resources and prevention of desertification;
- sustainable management of biodiversity;
- sustainable management of the atmosphere;
- expansion of use of alternative energy sources;
- comprehensive waste management;
- overall management of mountainous and coastal ecosystems;
- improving the legal and regulatory framework, monitoring systems and resources for environmental management;
- increasing environmental education and awareness.

Under *sustainable management of forest resources*, one-time state registration of forests will be conducted to assess the existing forest resources of the country and forestation works carried out

to restore forests in certain areas (roadside and coastal areas). Furthermore, new plantations of fast-growing tree types will be carried out to meet the demand of the people for wood and to temporarily solve the problem of deforestation caused by the population. At the same time, ecotourism and recreation centers will be established on the basis of forest landscape, and necessary trainings will be organized to increase the capacity of local staff of the central executive authorities in sustainable management of forest resources.

Under sustainable management of water resources, registration of drinking water sources in rural areas will be continued and their sanitary protection zones defined. An Action Plan will be prepared and implemented to prevent pollution of water by residential districts, industrial, agricultural and recreational (tourism) facilities located on the coast of the Caspian Sea and the banks of rivers and other water reservoirs. Drainage water collected at main collectors will be examined and recommendations prepared on their reuse. Besides, while introducing advanced methods and technologies rehabilitation works will be carried out to ensure improvement of ecological conditions of existing water facilities and sewage systems. So it is envisaged to rehabilitate and reconstruct water supply and sewerage systems in Aghdash, Goychay and Nakhchivan on basis of funds of the ADB; in Ganja and Shaki under agreement signed with the KFW (Germany) and the SEKO (Switzerland); in 22 regional centres: Khirdalan, Shamakhi, Aghstafa, Bilasuvar, Goranboy, Gabala, Oghuz, Guba, Saatli, Goygol, Tovuz, Hajigabul, Gazakh, Gakh, Mingachevir, Sabirabad, Samukh, Shamkir, Tartar, Zagatala, Sharur and Babak in line with the WB approved Project on National Water Supply and Sanitation Services; as well as to expand Hovsan Aeration Facility and renovate Pumping Unit #2 in Zikh against loans lent by the Government of France. The International Cooperation Bank of Japan will allocate funds for reconstruction of water supply and sewerage systems in 10 regions. They are Shirvan, Salyan, Khachmaz, Neftchala, Yevlakh, Barda, Khizi, Gusar, Gobustan and Naftalan.

Meantime zones with possibility of floods and deluges defined and mapped, and regular forecasts prepared and submitted to relevant authorities. Also, the system of monitoring on the efficient use of water resources and their prevention from pollution will be improved. In conformity with the Action Plan on Acceleration of the Social and Economic Development of Settlements of Baku approved by the Presidential Decree on February 27, 2006 potable water pipelines will be laid to settlements of Baku and construction of sewerage systems continued there.

Under *managing land resources and preventing desertification*, a National Action Plan to combat desertification will be developed and implemented. Also, an action plan will be designed and implemented, with strengthened control, to stimulate sustainable use of land resources, and to protect and improve land fertility as well as to prevent water and wind corrosion of lands. Proposals will be prepared and submitted to relevant authorities to improve the use of agricultural land and to strengthen the protection of land from man-made pollution. At the same time, package of proposals will be prepared to rehabilitate land damaged as a result of the activities of large industrial and mining facilities.

Under *sustainable management of biodiversity*, the production capacity of relevant companies will be increased to ensure the sustainable growth of biological resources of water, the area of existing protected sites expanded and necessary social and physical infrastructure established to develop ecotourism. At the same time, new biological centers will be established to increase nurseries, forest animals and birds to help ensure the sustainable development of biodiversity.

Under *sustainable management of the atmosphere*, an Action Plan will be designed and implemented to reduce the amount of greenhouse gases emitted into the atmosphere and to reduce a negative impact of climate changes on the ecosystems and economy. Also, a Carbon Fund will be established for financial assistance to manufacturing companies in order to reduce their gas and carbon emission into the atmosphere. Gas analyzers will be installed in high traffic

areas to protect atmosphere of big cities from traffic pollution, and measures implemented to improve the system of monitoring on pollution of the atmosphere.

Under expanding use of alternative energy sources, pilot power plants will be constructed in Absheron and Guba-Khachmaz regions to create technologies for obtaining energy for heating and fertilizers from the waste of organic matter and to study the possibility of using solar and wind energy. In addition 6MW (6 elektrik enerjisi) wind farm will be constructed in Khizi (100km northwards of Baku).

Under comprehensive waste management, a strategy will be developed to utilize solid production, agricultural and household waste as secondary raw materials, energy carriers, fertilizers and construction and composite materials, and qualitative and quantitative evaluation of the collected and created waste improved through rationalization of registration and reporting procedures. Also, a package of proposals will be prepared for the establishment of new waste burial grounds for large residential districts which meet environmental and sanitation requirements. At the same time, existing waste burial grounds, legal and illegal dumps will be evaluated by location, area, level of harm caused to the environment, and other indicators and recommendations prepared for their modernization or elimination. The waste treatment plant will be constructed and put into operation in Baku. The Project on Improvement Solid Wastes Management in Azerbaijan approved by the Decree #190s of the Cabinet of Ministers of the Republic of Azerbaijan on May 26, 2008 will be implemented in this sector.

Under *overall management of mountainous and coastal ecosystems*, creation of manufacturing facilities that do not require intensive use of natural resources will be supported in the mountainous and coastal areas to improve the living standards and employment opportunities of the local people. At the same time, local environmental centers will be established to raise awareness among the local population on environmental issues related to the management, monitoring and development of ecosystems. Also, technical and financial assistance will be provided in order to improve the condition of ecosystems of mountainous and coastal areas that have suffered substantial damage.

Under *improving the legal and regulatory framework, monitoring systems and resources for environmental management*, the national legal regulatory framework on environmental protection will be brought in line with international regulations and standards, and the requirements of the conventions and treaties to which Azerbaijan is committed as well as the legislative framework will be improved to better reflect the aims of environmental protection and effective use of natural resources.

Under increasing environmental education and awareness, training aids on socio-economic aspects of global and local environmental problems will be designed and distributed among the population to raise environmental awareness. Educational materials on effective use of natural resources will be designed and distributed among the population, and the environmental education system improved through specialized courses. Also, awareness-raising campaigns will be arranged for families, educational, industrial and manufacturing facilities with potential impact on the environment, as well as, for civil servant and government officials. Furthermore, a mechanism will be developed to promote community participation in the decision-making processes related to environmental management issues.

6.4. Public Infrastructure Development

6.4.1. Link to Poverty

Social infrastructure as well as housing and communal services and public utilities are among main factors that have direct impact on living conditions of the population. Inadequate level of electricity, gas, heat supply, sanitation services provided to residential, public and other social facilities, as well as improper transportation and treatment of domestic wastes affect living

standards of and cause domestic difficulties for people. In this context development of the public infrastructure is an important direction for poverty reduction within framework of the SPPRSD. As mentioned in Section 4.4.5 (Investment Policy) of this chapter, and in line with the SPPRSD priorities, it is envisaged to develop annually mid-term (four-year) PIPs aimed at increasing the efficiency of public investments both in the public utility sector (transport, water and sewerage, amelioration and irrigation, power and etc.) and social infrastructure (education, health, social protection), in close coordination with the State Budget and MTEF. Attachment №2 shows the list of main projects under the PIP (2007-2010) which are in line with the priorities identified under SPPRSD.

In addition to the aspects mentioned above, while affecting living standards of the population level of communal services is a factor interlinked with health status of the population. On the other hand high-quality communal services reduce time to be spent by people to domestic issues. In its turn it is interrelated with reduction of the poverty risks, increasing income-generation opportunities as well as human capital development.

6.4.2. SPPRSD and Public Utilities Sector

Electricity, gas, heat, water supply and sanitation services provided to residential, public and other social facilities, creation of system of transportation and treatment of domestic wastes will remain priorities to be followed in infrastructure sector. Increasing availability of private housing resources, completing process of flats privatization, shaping municipal property, designing and introduction in line with international standards of new forms for housing resources management in the market economy are set out as main goals.

In order to achieve goals set out above, reforms in the **housing and public utilities sector** will be continued. Speeding up restructuring measures will be further prioritized as a daily objective to improve current legal and regulatory acts, develop new methodological framework and attract investments to the public utilities sector. Efforts will be undertaken to complete privatization of the public housing resources and to set up shares-based unions (condominiums) of owners of flats in the many-storeyed residential buildings (houses). In addition based on town-planning legislation preparing and approving of areal planning schemes, designs and master plans for cities and towns of the Republic in line with existing rules will be ensured. Based on these documents the relevant work will be continued to ensure settling of population, using of natural resources and production capacities along whole territory of the country and reconstructing engineering and infrastructure facilities in line with architectural rules. It is envisaged to provide with relevant infrastructure system all land sites to be allocated by municipalities and ExComs for construction purposes, to create utility service network at territories laid out in line with legislation, to establish new facilities for collection, transportation, decontamination and treatment of domestic wastes and to involve private sector in this field.

Meantime in order to improve **electricity supply** it is envisaged to construct new thermal and hydro power plants in the electrical power system, to rebuild existing power units, to speed up works aimed at enhancing capacities basing on alternative sources of power, to put into operation high-voltage electricity distribution lines and provide access of all administrative units to distribution grids, transformers and sub-stations to ensure overall power transmitting and distributing. Implementation of restructuring work will be continued to establish management system aligned with the market economy principles in power generation, transmission and distribution.

It is envisaged to implement reforms in relevant directions in order to strengthen financial discipline and establish in line with market economy transparent management structure on gas generation, transportation and distribution in **gas supply sector**. With regard to this a work will be carried out to restructure “Azerigaz” CJSC; complete installing of meters with end-users for better recording of effective use, distribution and consumption of natural gas; reduce losses;

develop physical and technical resources of facilities with a view of development of the natural gas supply system; renovate trunk and distribution pipelines, undertake measures for reconstruction of inground gas holders; reconstruct natural gas transportation system and develop intake capacities in the context of new gas fields development; restore gas supply to regional centers; move internal gas pipelines from basements of many-storeyed residential buildings to safe sites.

In order to ensure phased developing of *heat supply* sector basing on market economy principle “Azeristiliktajhizat” JSC will rehabilitate, modernize and reconstruct existing heat supply stations, construct new boilers, renovate local in-building heating systems, undertake efforts to de-centralize heat supply stations into autonomous ones, increase capacity of boiler plants through construction and reconstruction works basing on prepared action plan, renew heat supply to residential buildings as well as administrative and social facilities.

In order to meet evergrowing demand in *water*, solve problems on potable water supply to population in conformity with international standards and ensure overall developing of water sector “Azersu” JSC will take actions to timely put into operation facilities which are constructed using state-guaranteed loans, complete Oghuz-Gabala-Baku water pipe line project, reconstruct water pipelines, tanks, pumping stations, distribution networks, local in-building water supply systems and sewage waters purifiers in Baku.

In order to keep records on water used, completing works on installation of meters, reaching 100% level in collection fee for services provided and paying out services fees with e-medium through any postal and banking office will be ensured.

In addition restructuring works will be continued to attract investments to water sector and actions will be undertaken to involve the private sector and municipalities in conformity with legislation in rehabilitation water and sewerage systems as well as construction new pipe lines and facilities in all cities, regional centres and especially in rural areas of the country for uninterrupted water supply which corresponds international standards.

6.5. Cultural Development

6.5.1. Link to Poverty

Preservation of cultural heritage and cultural development are connected with nonprofit aspects in poverty reduction. While being integral part of the public development these issues appear to be factors that lay groundwork fore higher achievements in other spheres of social and economic development.

6.5.2. Current Situation and Main Challenges

Due to lack of financial resources difficulties in guaranteeing the preservation of the country’s cultural heritage emerged and the condition of historical monuments deteriorated. But recently, more attention has been paid to the preservation of the cultural heritage, and repair and conservation works have been carried out in the Shirvanshaklar Palace, Shaki Khan Palace, Momuna Khatun tomb and Gudi Khatun tomb and two minarets within the project of “Preservation of Cultural Heritage”. Trainings, related to the preservation of the country’s cultural heritage, have been arranged and relevant activities carried out in Shaki, Nakhchivan and Ichari Shahar (Baku) to involve communities, living around monuments, in the preservation of these monuments and establish profitable spheres for them.

It is important to increase the physical and technical capacity of the cultural and art centers and to improve equal access to them. In this connection major repair to the State Philharmonic named after M. Magomayev, the National Library named after M. F. Akhundov and the Lankaran State Drama Theatre has been carried out recently. At the same time in order to strengthened the physical and technical capacity at Baku Choreographic School, the State

Museum of Art, libraries for the blind, the school of music, art and painting for children improvements of these facilities has been continuing.

6.5.3. SPPRSD and Culture

The following priority areas have been defined for the development of culture sector within the SPPRSD:

- preserving and expanding access to the cultural heritage;
- improving access to cultural and art facilities.

Under *preserving and expanding access to the cultural heritage*, Ateshgah temple, Gil-gil river wall, Beshbarmag wall, Chirag-gala castle, Ramana castle, Nardaran castle, Mardakan castles, Shaghan castle, and underground water collection system in Ordubad, also the monuments of Gala History and Culture Reserve in Shaki will be restored and conserved. At the same time, Gala cultural-ethnographic National Park will be established as an open-air museum in the Gala village of Baku. There will be applied folk art schools and workshops set up in the existing culture houses in Baku and regions with a view to preserving local crafts. Also, a list of culture facilities to be part of cultural tourism will be prepared, cultural tourism routes drawn up, the communities living around historical and cultural monuments actively involved in preservation of these facilities and their income-generation opportunities improved.

Under *improving access to cultural and art facilities* the level of ICT supply in the cultural sector will be improved. In order to improve the physical and technical resources of culture and art facilities, the physical and technical resources of the National Library and the State Museum of Art will be strengthened, the scientific restoration center for museum articles and memorial objects provided with new building, buildings will be constructed for the State Museum of Azerbaijan Carpets and Applied Folk Arts, “Mugham House”. Also, repairs, rehabilitation and modernization will be carried out in Heydar Aliyev Palace, Azerbaijan State Museum of Art, the Azerbaijan State Film Fund, Mingachevir State Drama Theater and Baku State Circus. In addition, Movie Studio “Azerbaijanfilm” named after J. Jabbarli will be upgraded, state publishing houses provided with compact and flexible polygraphic facilities, dubbing work and producing movies on the basis of state orders improved.

6.6. Gender Policy

6.6.1. Link to Poverty

Social and economic processes in the country affect status of its every citizen, especially representatives of vulnerable groups and may cause social decay of families. It is noticed in birth rate changes, rise in reported divorce cases and number of abandoned children.

Economic disadvantages in the family are linked with divorce, cohabitation and single parenthood. Since the beginning of transition period, the number of children born out of wedlock has increased. Since 1990, it has increased by 3.1 and 5.5 times in urban and rural areas respectively. This increase, particularly in rural areas, may be due to the increasing number of early and unregistered marriages. The legal marriage age for girls is 17, but there is evidence that girls, especially in rural areas marry earlier. It arises from the fact that their parents feel that early marriage frees them from the need to worry about their daughters’ upkeep and future marriage related problems that may emerge when they grow up. International research has shown that the children of teenage parents are more likely than children of older parents to be in poverty and are also more likely to suffer adverse outcomes as they get older. Early marriages have physical, intellectual, psychological and emotional impacts as well as cutting young girls off from educational opportunities aimed at helping their individual development and future opportunities. In addition, it will almost certainly mean premature pregnancy and childbearing, factors which can be detrimental to the health of the mother and child.

6.6.2. Current Situation and Main Challenges

The Republic of Azerbaijan subscribes to the concept of gender equality through its current legislation, as well as through the obligations it has taken on by joining international conventions. A Presidential Decree on Measures for Enhancement Women's Role in Azerbaijan was signed on January 14, 1998, and the country's National Action Plan on Women's Issues for 2000-2005 was approved by the Decree of the Cabinet of Ministers of the Republic of Azerbaijan on March 6, 2000 and another Presidential decree "On the Implementation of State Policy on Women's Issues in Azerbaijan" in 2000 was enacted on June 3, 2000. Azerbaijan also joined and ratified the Convention on Elimination of All Forms of Discrimination against Women in 1995. In 1998 the State Committee for Women's Issues was established, and in 2006 was restructured to form the State Committee for Family, Women's and Children's Issues. The Law of the Republic of Azerbaijan on "Gender (men and women) Equality" was adopted on October 10, 2006.

Azerbaijan, like other CIS countries, has achieved gender equality in secondary and higher education. However, the existing data shows that there are some drop-outs at the level of basic and secondary education, especially in rural areas. Meantime the share of young women enrolled decreases, the higher the level of education. So in the beginning 2007-2008 academic year, share of women was 47.5% in general schools, 28.5% in vocational schools and lyceums, 47.0% in higher education, 28.4% in postgraduate and 27.5% among those registered for doctoral degree. Thus, although equality in education has been achieved, it is of great importance to maintain it throughout the current period of rapid social and economic changes taking place in the country. In order to keep the current situation under control there is a need to hold repeated monitorings.

There are no differences in wages for men and women working in the same profession and at the same qualification level but disparities exist in the ratio of women to men in management positions and higher paying jobs. Women dominate sectors such as health and social services (76.3%), education (71.1%) and other community, personal service and social activities (57%), where wages tend to be low.

Women's representation in the country's decision-making process is still comparatively low. In Azerbaijan the share of women in the central authorities at the decision-making level is 3.3%, among the members of municipalities is 4.1%. According to the results of the last parliamentary elections, held in 2005, the share of women among members of Parliament is 11.2%. The share of women among judges is 14%. In the private sector, there is, as is typical also in other countries, an under-representation of women in the management sector. Furthermore, women are concentrated at the lower levels of the management pyramid. Again the challenge is to increase advocacy and awareness raising in order to empower women, and increase their participation and representation in the political and legal areas.

One of the reasons for the low share of women in political and economic spheres is that in the transition period, supportive services such as state child-care have been abolished, and women find the burden of domestic responsibilities. It re-imposed on their time, limiting their opportunities to maintain their existing rights and standards of living. The revival of the pre-school system, as envisaged in the education sector of the SPPRSD, will have beneficial effects on both women and children.

Gender-based violence is another issue which is being addressed in the gender sector. Although the Constitution of the Republic of Azerbaijan, national legislation and the international treaties guarantee protection of women from violence, there are still problems in this regard in real life. Regular official data on gender-based violence are not available and one of the reasons is that not all victims turn to the law enforcement bodies, as the victims are afraid of public criticism and uncertain where to apply for necessary assistance. In this regard there is a need to improve the

support systems for victims of violence, and develop skills of law enforcers in dealing with and helping victims.

Inequality and poverty are the root causes of human trafficking. The victims of trafficking tend to be women and children. Although the UN Convention against Transnational Organized Crime and its Protocol to Prevent, Suppress, and Punish Trafficking in Persons especially Women and Children was ratified in 2003, the National Action Plan on Fight against Human Trafficking was adopted in 2004 and is implemented at present there are still serious problems in this field.

On August 4, 2005 the President of the Republic of Azerbaijan signed a Decree #272 on enactment of the Law on Fight against Human Trafficking which contains a set of legislative, institutional, monitoring and rehabilitation measures designed to address the problem more effectively. Now there is a need to undertake relevant consistent measures to ensure the full implementation of this new Decree.

6.6.3. SPPRSD and Gender Equality

Gender itself as a cross-cutting issue in the SPPRSD was incorporated into other sectors of the program and specific measures aimed at improving situation in the gender sector cover other ones of this State Program. So the gender issues were specially prioritised in the education, health, labor market and employment, IDPs and refugees sectors of the SPPRSD.

In addition in order to achieve the targets set out in the gender sector, the SPPRSD envisages implementation of activities in the following priority directions:

- developing mechanisms for promoting gender equality;
- strengthening the fight against gender-based violence and violence against children as well as human trafficking.

Under *developing mechanism for promoting gender equality*, gender review will be carried out of current legislation and new draft laws as well as Family Code of the Azerbaijan Republic. At the same time measures required for ratification of the ILO Convention #156 on Workers with Family Responsibilities concerning Equal Opportunities and Equal Treatment for Men and Women Workers will be undertaken, and National Plan of Action on Gender Equality and Family Issues implemented. A Coordinating Board will be established together with relevant organizations and its capacity enhanced in order to increase the efficiency of organizations responsible for gender issues, and terms of reference prepared for persons responsible for gender policy in relevant bodies.

A database will be established for monitoring and evaluation of current gender equality policy, and the capacity of relevant bodies increased in terms of collection, analysis and reporting of gender-disaggregated data. At the same time, the obstacles to increasing women participation in decision-making process will be examined and annual reports prepared containing an evaluation of gender equality in the country.

The possibility of applying best international practice will be explored when developing gender equality mechanisms, further discussions on the need to consider gender impact of state budget allocations will be organized, and mechanisms of considering gender factor in the state budget development analysed.

Under *strengthening the fight against gender-based violence and violence against children, as well as human trafficking*, the capacity of the law-enforcement agencies involved in the detection, prevention and elimination of gender-based violence, violence against children and human trafficking and the agencies involved in education, health, social service and migration, as well as mass media will be developed. A National Action Plan will be prepared, as well as current legislation reviewed to reveal relevant gaps for the purpose of further strengthening and

better coordinating activities related to prevention of cases on gender-based violence and violence against children.

At the same time, a reliable mechanism to monitor gender-based violence and violence against children will be developed, and analysis carried out to identify the reasons behind violence and obstacles to its prevention. Socio-economic factors affecting marriage age will be explored to reduce the incidence of early marriages, and the fight against violation of current legislation and public control over violations will be strengthened.

The implementation of a National Action Plan on Fight against Human Trafficking adopted on May 6, 2004 will be strengthened and a public awareness campaign conducted on the risks and possible results of women's employment abroad in order to increase the effectiveness of the fight against human trafficking.

6.7. Child and Youth Policy

6.7.1. Link to Poverty

Sustainable economic growth and poverty reduction requires the active participation of young people in the economic and social processes of the country. As with gender, this is necessary from the point of view of human rights. All children and young people should have the same rights and opportunities to develop their own potential. It is important that mechanisms exist to give young people a voice in society, so that they feel responsible for, and can contribute to, the country's development. Whereas children have to rely on adults (family or the state) to represent their interests, young people can be supported to articulate and defend their own rights and interests.

Young people are also the future managers of the country's economy and resources, and should also be brought up to understand the importance of sustainable development.

Poverty also affects children in different ways from adults. Research has shown that children brought up in poor households are more likely to be poor as adults. Poverty in childhood is harmful to children in the present and it also affects their future development and opportunities. Children from poor households are less likely to perform well at school and to continue to higher education. Income poverty is often associated with malnutrition among children, which affects both their physical and mental development. Children are also particularly dependent on the public education and health services provided by the state. Children deprived of parental care are also a particularly vulnerable group who are reliant on the state for protection and care. This means that there is a need for the sectors on health, education, and social protection to ensure that the rights of children are being protected and their basic needs are being met.

6.7.2. Current Situation and Main Challenges

Young people and children represent 55% of the population. One of the main problems facing young people is related to lack of employment opportunities, especially in regions and rural areas. Young people represent 51% of the registered unemployed. For this reason many young people migrate to large cities of the country or to other countries. They often live in poor housing conditions, and experience economic and emotional insecurity. These people need support in finding suitable and safe employment.

Young people being demobilized from the army, and also those leaving institutional care, require particular support in finding employment and housing. Youth represents an age group when individuals are more likely to engage in "risk-taking" activities, which lead to addiction (drugs, tobacco, alcohol use); and some of which have permanent affects on the young person's health conditions (unsafe sex resulting in STDs or HIV infection). It is therefore important to join with parents to increase awareness of young people on the benefits of healthy life styles, and the possible consequences of risk-taking activities. For this reason it is important that young people

have access to sport facilities. Sport is of great importance for the healthy, not just physical but also mental development of the young people.

Another problem faced by young people is lack of access to affordable housing for young couples, leading to extended families living in overcrowded conditions. There are also particularly vulnerable groups of young people, which require policy measures aimed at providing them with material and other support, while also promoting their integration into society. This is particularly the case of young disabled persons, and young people being brought up in institutions.

6.7.3. SPPRSD: Children and Youth

The overall priority in this sector is to create conditions which will promote the all-round development of youth, and to take more concrete steps to address the problems facing youth. Some of the problems of this sector are also specifically addressed in other sectors, for example economic development (promoting job creation, and extending mortgage facilities for young families), health (awareness of importance of healthy lifestyles), education (equality of opportunity), social protection (for particularly vulnerable groups of young people, including the disabled) and employment (measures to help job placement of youth).

In addition to the abovementioned activities, the SPPRSD includes the following main priority directions under the child and youth sector:

- promoting healthy life style among young people;
- improving opportunities for active participation of youth in the country's socio-political life;
- promoting patriotic education of youth, providing comprehensive state assistance to the talented youth;
- strengthening child policy.

Under *promoting healthy life style among young people*, awareness campaigns will be intensified to help prevent drug addiction and other negative tendencies among youth.

Under *improving opportunities for the active participation of youth in the country's socio-political life*, programs and projects on main areas of national youth policy will be launched, the publication of youth newspaper and magazines increased, radio and TV programs on urgent youth issues supported, the "Young Leaders" program introduced to develop managerial skills of youth.

Under *promoting patriotic education of youth*, a State Youth Reward will be established for talented youth that have gained high achievements in science, education, culture, art and sport, summer recreation camps created for spending leisure time, a network of Youth Houses established, military sport games "Shahin" (Falcon) and "Jasurlar" (Braves) and all-round competition "Ready to protect motherland" organized among school students, training-practice centers established at urban and rural schools, necessary training weapons and visual learning aids provided to schools, and the pre-conscription course in schools improved.

Under strengthening child policy, a National Action Plan on Child Rights in line with the International Convention on the Rights of the Child will be implemented, a Coordinating Board established to strengthen cooperation among organizations dealing with child issues, public awareness raised on international treaties, foreign experience and current legislation related to protection of child rights.

6.8. Family Policy

6.8.1. Link to Poverty

Family is an important social institution that forms personalities and societies. In national culture of Azerbaijan family is very substantial phenomenon and attitude to family is a key factor in determination of social status as well as self-affirmation of the person.

Being a social institution family is under impact of different social phenomena like policy, religious, etc. On the other hand family determines peculiarities of any society, as well as system of values of human being, his/her ideals, attitude towards culture, nation, labor relations. Gender relations which are of special importance have impact on reproductive behaviour of person and other factors derived from demographic processes. For instance, when woman sacrifices her public work to family life it may affect welfare of the family. Meantime high public activity of women causes decrease of birth rate in the country.

6.8.2. Current Situation and Main Challenges

According to data of January 1, 2008 there are 1,810.5 families in the Republic of Azerbaijan. Family composition, marital status of people and relationships in the family are among main indicators reflecting gender relations in every country and society. Social standards, traditions and cultural trends as well as marital and family relationships are drastically changing in Azerbaijan which is in the political and economic transition.

So-called composite families were prevailing in Azerbaijan by mid-XX century when representatives of several generations who have kinship had lived in one family. Last surveys have shown that model of modern Azerbaijani family is gradually changing. Nowadays mainly core families consisting of only parents and children (one generation) prevail in the country. Above mentioned composite families are scarce now especially in urban areas. And number of family members also reduces. It is caused by decrease in birth rate because of high economic and public activity of women that brings to reduction in number of children in the family.

6.8.3. SPPRSD and Family

Main priority in this sector is to promote and contribute to the state formation and overall progress through strengthening family and relationship in the family considered as a core of society.

With regard to the family policy sector the SPPRSD envisages implementing activities in the following priority directions:

- strengthening family policy;
- preserving family institution and ensuring its development;
- ensuring gender equality in the family;
- strengthening relationship in the family;
- preventing domestic violence and eliminating its consequences;
- preventing early marriages.

Under strengthening family policy main directions will include demographic issues, family planning, reproductive health, social protection of the family.

As regards *preserving family institution and ensuring its development*, the legal and regulatory framework on family support will be improved, comparative research carried out to study impact of globalization upon families, family indicators prepared basing on research outcomes, activities implemented to forecast and design family and demographic processes occurring in the country.

With regard to *ensuring gender equality in the family*, research on family problems will be carried out with consideration principles of gender equality, gender expertise on Family and Labour Codes of the Republic of Azerbaijan carried out, relevant changes made to current legislation if so required.

As for *strengthening relationship in the family*, projects on organizing leisure time in the family (family tourism, family sporting events, etc) will be developed and implemented. Meantime it is envisaged to establish special family centers specialized in providing psychological assistance.

As concerns *preventing domestic violence and eliminating its consequences* representational research will be carried out to define real situation on domestic violence, special programs developed and implemented to work with people who committed violence, legislation developed to establish public shelters and crisis centres for victims of violence.

With regard to *preventing early marriages* relevant measures will be undertaken to increase amenability against those who promoted to early marriages.

Chapter 7 Institutional Policy and Good Governance

7.1. Link to Poverty

Implementing a successful poverty reduction policy requires strong, transparent and accountable public institutions that are staffed by a professional civil service, guided by appropriate laws, and reinforced by a responsive judicial system. In this regard poverty reduction depends crucially on the effectiveness and efficiency of the public institutions activities at the national level. Continuous institutional improvements are at the heart of the adaptive change necessary for integration to the global economic system and maintaining of competition.

The SPPRSD recognizes the centrality of public sector reform and upholding good governance to poverty reduction and ensuring that Azerbaijan aligns with EU norms and standards by 2015.

7.2. Current Situation and Main Challenges

Since gaining independence in 1991, the Republic of Azerbaijan has undergone a difficult political transition and institutional evolution. The break down in economic ties between the post-Soviet republics after collapse of the Soviet Union, occupation of 20% of Azerbaijan's territory by Armenia, which resulted in over 20,000 deaths, a million refugees and IDPs created considerable constraints to introducing institutional reforms.

Since late last century the government has initiated institutional reforms aimed at further improving the standards of governance, restructuring public administration, and transforming institutions of state.

In 1998, the State Commission on Public Administration Reforms was established to lead the process of institutional reform and working groups started working under this Commission in 4 directions described below:

- 1) restructuring the system of public expenditure management;
- 2) reforms in the system of audits;
- 3) reforms in the system of public administration;
- 4) judicial and legal reforms.

In last period a notable progress has been achieved in this area when a number of public institutions has been optimized as several which no longer had a role to play in the market economy have been abolished, the powers and functions of several central executive authorities have been more clearly defined, as well as functional improvements have been made as a result of merging or elimination of relevant structures of these authorities. In addition significant achievements have been made to separate the regulatory and commercial functions of state agencies.

The Law "On Civil Service" was adopted in 2001 to form the legislative framework of civil service and several amendments and additions made to the Law since then to improve it further.

In line with the requirements of the above Law, in 2005, a Civil Service Commission was established under the auspices of the President of Azerbaijan and Regulations of this Commission was approved by the presidential decree of June 3, 2005 to pursue reforms and improve the overall delivery and quality of public services. Also, a Civil Service Management Council has been established to ensure a systematic approach to the implementation of civil service reforms. In line with the reforms in the civil service system, the wages of civil servants have regularly been increased and their social protection improved. The Law of the Republic of Azerbaijan on Ethical Conduct of Public Servant was adopted.

As a result of judicial and legal reforms the country's legislative framework was aligned with international norms and standards, the judicial system was updated, a new 3-tier judicial system was established, and new procedures, based on a system of examinations and tests, have been put in place for hiring judges. Legal assistance centers have been set up to provide the poor with free and better access to relevant legal assistance services and to raise their awareness of their rights and protection mechanisms.

Azerbaijan has joined the European Council's Group of States against Corruption (GRECO), the Istanbul Anti-Corruption Action Plan under the Organization for Economic Cooperation and Development (OECD), and the Extractive Industries Transparency Initiative (EITI). In 2004, Azerbaijan adopted a State Anti-Corruption Programme (2004-2006) and amended the country's legislation to enforce anti-corruption measures. In order to ensure implementation of the Anti-Corruption Law of the Republic of Azerbaijan an Anti-Corruption Commission was established along with an Anti-Corruption Department under the Prosecutor General. In addition the National Strategy on Transparency Enhancement and Anti-Corruption and Action Plan on Implementation of the National Strategy in 2007-2011 were adopted.

One of the notable successes is that in 2003 the Republic of Azerbaijan joined the EITI. The Government established a National EITI Commission which signed a Memorandum of Understanding with international oil companies active in Azerbaijan, as well as with the National NGO Forum. The Government has prioritized the transparent and effective management of state oil revenues to benefit the country as a whole to turn "black gold into human gold." This commitment was particularly underlined in 2005 when Azerbaijan submitted its first report on state revenues from the extractive sector to the Committee on EITI. This report was prepared by an international audit firm with the active involvement of Azerbaijan civil society.

Decentralization process started in 1999 with the establishment of 2,667 municipalities. As a result of recent reforms, municipalities have become decision-making bodies that play an important role in the process of decentralization and the democratization of civil society, and in the mobilization of citizens and joint anti-poverty activities at the local level.

However current experience shows that the municipalities face problems related to ambiguities and gaps in the relevant legislation, lack of clarity on division of responsibilities and authorities with other bodies at the local level, and lack of funds to carry out their new responsibilities effectively. And there is a need to strengthen the municipal capacity in order to increase their role in local socio-economic development, as well as in the poverty reduction process.

In 2005, Azerbaijan was elected to the UN Human Rights Council, and thereby reaffirmed its commitment to the promotion and protection of human rights and fundamental freedoms, including (but not limited to) a commitment to: fight against racism and racial discrimination; protect the rights of the child, civil and political rights; and promote gender equality and the empowerment of women. Azerbaijan is a party to all major international and regional human rights treaties and has taken significant steps to ensure that measures are enforced in this sphere, including the establishment of the Office of the National Human Rights Defender (Ombudsman) in 2001. While these provisions are not explicitly stated in the SPPRS policy priorities, they are

implicit to many of these measures, and are a mainstreamed element of EU norms and standards which are the objective benchmarks that Azerbaijan has adopted for itself.

7.3. SPPRSD and Good Governance

The SPPRSD has recognized the overarching importance of adopting global “best practices” and standards in public administration and the centrality of this process to the poverty reduction strategy. To this end the presence of strong and transparent management institutions, reinforced by a responsive judicial system, regulated by appropriate laws and staffed with professionals is important to successful implementation of a poverty reduction policy under the SPPRSD.

Within the Good Governance and Institutional Policy sector, the SPPRSD envisages policy measures in the directions listed below:

- Improvement of public administration;
- Civil Service reform;
- Judicial and legal reforms;
- Combating corruption;
- EITI;
- Decentralization and development of civil society;
- Applying international human rights standards and norms.

Improvement of Public Administration. Reforms will be mainly aimed at optimizing the structure and tasks of state bodies, as well as separating regulatory and commercial functions in the transportation, telecommunication, fuel and energy and other sectors. Also, an action plan to cushion the negative effect of redundancies caused by structural reforms in the public administration will be developed and implemented. The SPPRSD envisages improving the work of tax and customs bodies, the management of public expenditure and treasury, and finalizing the adoption of International Financial Standards of Accounting.

“e-Government” will be created to improve the efficiency and transparency of state authorities and to reduce bureaucracy, and an Action Plan and single standards for websites of central executive bodies will be developed. In order to increase transparency in the decision-making process and encourage the active involvement of civil society in these processes the participatory mechanism for public discussion of draft laws and decisions relating to public welfare will be improved.

Civil Service reform. The capacity of the Civil Service Commission under the President of the Republic of Azerbaijan will be strengthened, a system of rotation and assessment of civil servants performance established, internal control of civil service created and codes of ethics and standards of behaviour towards citizens adopted in order to improve the management of civil service system.

In order to improve the system of recruitment to civil service, the existing recruitment legislation will be improved, the development of terms of reference, employment conditions and requirements for civil service positions strengthened, an Action Plan on preparation of civil servants developed and appropriate conditions created for holding admission exams.

For the purpose of attraction highly qualified personnel to civil service and increasing their performance level the system of social protection of civil servants will be enhanced. At the same time capacity of civil servants in public administration, anti-corruption, gender and other areas of service system will be strengthened through special trainings.

Judicial and Legal Reforms. Legal and judicial reforms will be continued with the objective of improving access to legal institutions and legal assistance, especially for the poor and vulnerable.

The network of regional legal advisory centres will be expanded so that the poor can be informed about civil rights and have access to free legal services, and other necessary measures will be undertaken to expand access of population to legal institutions.

At the same time, the capacity of legal and judicial employees will be developed and new technologies introduced in the courts in order to increase the professional level of legal and judicial employees.

Medical and sanitary departments and clinics attached to the penitentiaries will be upgraded, the security system in the isolation wards and correctional facilities improved, libraries and sports grounds created and legal education strengthened for the accused and prisoners, in order to increase their legal awareness, improve living conditions and ensure health protection rights.

In order to ensure re-integration and adaptation of the prisoners, more workshops for prisoners will be carried out to enable them to acquire skills which are in demand in the labor market on their release, and public awareness measures among the population enhanced to support re-integration of the prisoners to the society.

In order to promote Juvenile Justice, pool of judges dealing with juvenile cases and independent Juvenile Police Department will be established, the skills of lawyers (advocates) dealing with juvenile cases improved, and a model of Juvenile Justice system introduced in pilot districts.

A State Population Registry of the Republic of Azerbaijan was established to create more accurate and secure registration of population statistics. Special emphasis will be given to improving birth registration in remote areas which should lead to better monitoring of infant and child mortality rates.

At the same time in conformity with relevant legislation a work will be continued to create a database on legal entities.

The SPPRSD envisages the strengthening of physical and technical resources of legal and judicial authorities, better equipment for forensic examination activity, and construction and repair of buildings for judicial authorities within the PIP.

Combating corruption. The SPPRSD envisages a review of current legal regulatory acts in terms of anti-corruption, capacity building for law enforcement authorities to combat corruption, arrangement of awareness-raising and training courses, improving cooperation between international and local organizations in this area, as well as, the creation of an overall monitoring system and a single database. At the same time, statistical periodic reports on corruption crimes will be prepared and made publicly available on a regular basis.

EITI. Awareness of the EITI will be raised, participation in related international initiatives expanded, the regular reports continued, and stakeholders will be encouraged to participate in this initiative.

De-centralization and development of civil society. The SPPRSD includes measures aimed at improving the functioning of municipalities and capacity building at the municipality level. The legislation on municipalities will be improved and a relevant review carried out to eliminate the existent gaps, so that the division of rights and responsibilities between local self-governance bodies and executive authorities are more clearly specified.

In order to strengthen the financial basis of municipalities, the mechanism for allocating subsidies to municipalities from the state budget will be improved, cooperation improved between municipalities and the relevant departments of the Ministry of Taxes of the Republic of Azerbaijan in the collection of local taxes and duties, the transfer of official property rights to municipalities accelerated.

Efforts aimed at strengthening of the municipalities institutional development will be continued. Setting up municipal associations will be encouraged, and a mechanism improved to hold state and public control over the financial and economic activity of municipalities. In order to develop capacity of municipalities trainings courses for upgrading skills of municipalities' members and officers will be organized, further expansion in the exchange of experience at the local and international level in this area encouraged, and preparation of specialists on municipalities in the public education system supported.

In order to support strengthening civil society, increasing role of the local communities in the solution of local problems, and encouraging community-based development the SPPRSD envisages support to NGOs.

Applying International Human Rights Standards and Norms. Azerbaijan will continue to participate actively in international human rights bodies, including participating in the newly established UN Human Rights Council and uphold regional and international conventions and standards. Within the SPPRSD, a commitment to these conventions is mainstreamed, ensuring that the rights and obligations to which Azerbaijan has committed itself are implicit in all policy measures, including protection of child rights, fighting against racism and racial discrimination, and ensuring gender equality and the empowerment of women.

Chapter 8

Participation and Monitoring

One of the important features of the SPPRSD is its participatory process, which brings together government, civil society and the international organizations in the effort to combat poverty. The main objectives of the participatory process can be summarized as follows:

- ensuring close coordination of the work of government representatives, civil society and international organizations in combating poverty;
- improving the constructive dialogue between government and civil society;
- raising public awareness of the government's poverty reduction strategy and implementation status of the relevant current state programs;
- facilitating discussions on the impact of policy measures on the living standards of the population in order to better define priorities;
- increasing public involvement in the implementation of the SPPRSD.

While the implementation process will be monitored through public monitoring, work will also continue on improving data collection methods and standards over the period of the SPPRSD, in order to improve ability to monitor the final outcomes of the State Program.

ACRONYMS

ADB	Asian Development Bank
ADFD	Abu Dhabi Fund for Development
AIDS	Acquired Immune Deficiency Syndrome
AMF	Azerbaijan Mortgage Fund
AMU	Azerbaijan Medical University
ANAMA	Azerbaijan National Agency for Mine Action
ANAS	Azerbaijan National Academy of Sciences
ARRA	Agency for Rehabilitation and Reconstruction of Areas
CA	Chamber of Accountants
CCC	Commission on Combating Corruption
CIS	Commonwealth of Independent States
CM	Cabinet of Ministers
CoE	Council of Europe
CSC	Civil Service Commission
CTU	Confederation of Trade Unions
DHS	Demographic and Health Survey
EBRD	European Bank for Reconstruction and Development

EITI	Extractive Industries Transparency Initiative
EU	European Union
ExCom	Executive Committee
GDI	Gender and Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measure
HBS	Household Budget Survey
HD	Household Data
HIV	Human Immune Deficiency Virus
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technologies
IDA	International Development Association
IDB	Islamic Development Bank
IDP	Internally Displaced Person
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
JBIC	Japanese Bank of International Cooperation
KF	Kuwait Fond
KfW	KfW Entwicklungsbank (German Bank for Development)
LFS	Labor Force Survey
MA	Ministry of Agriculture
MC	Municipal Councils
MCIT	Ministry of Communication and Information Technologies
MCT	Ministry of Culture and Tourism
MDG	Millennium Development Goals
ME	Ministry of Education
MED	Ministry of Economic Development
MENR	Ministry of Ecology and Natural Resources
MES	Ministry of Emergency Situations
MF	Ministry of Finance
MFA	Ministry of Foreign Affairs
MH	Ministry of Health
MIE	Ministry of Industry and Energy
MJ	Ministry of Justice
MLSPP	Ministry of Labor and Social Protection of the Population
MM	Milli Majlis/National Assembly – Parliament
MTEF	Medium Term Expenditure Framework
MTr	Ministry of Transport
MTx	Ministry of Taxes
MWIA	Melioration and Water Industry Agency
MYS	Ministry of Youth and Sport
NATO	North Atlantic Treaty Organization
NB	National Bank
NGO	Non-government Organization
NGOSSC	NGOs State Support Council under the President of the Republic of Azerbaijan
NRTC	National Radio and Television Council
NSFA	National Scientific Foundation of Azerbaijan
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Co-operation in Europe
PIP	Public Investment Program
RHS	Reproductive Health Survey
SASMP	State Agency for Standardization, Meteorology and Patent
SBS	State Border Service
SCARB	State Committee on Affairs with Religious Bodies
SCC	State Customs Committee
SCE	State Commission on Education under the President of the Republic of Azerbaijan
SCFWCP	State Committee on Family, Woman and Child Problems
SCLM	State Committee on Land and Mapping
SCMSP	State Committee for Managing State Property
SCRIDP	State Committee for Refugees and Internally Displaced Persons
SCS	State Committee for Securities
SDFIDP	Social Development Fund for IDPs
SECO	Swiss Agency for Development and Cooperation

SF	Saudi Fund
SIC	State Investment Company
SMS	State Migration Service
SOCAR	State Oil Company of Azerbaijan Republic
SOFAR	State Oil Fund of Azerbaijan Republic
SPA	State Procurement Agency
SPPRED	State Program on Poverty Reduction and Economic Development
SPPRSD	State Program on Poverty Reduction and Sustainable Development
SSC	State Statistical Committee
SSPF	State Social Protection Fund
STPAC	State Town Planning and Architecture Committee
SWG	Sector Working Group
TACiS	Technical Assistance for the Commonwealth of Independent States
UN	United Nations
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
USCRDF	United States Civilian Research and Development Foundation
WB	World Bank
WFP	World Food Program
WHO	World Health Organization
WTO	World Trade Organization