

**STATE PROGRAMME ON
POVERTY REDUCTION AND ECONOMIC DEVELOPMENT
2003-2005**

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

PROGRESS REPORT – 2003/2004

BAKU – 2005



DECREE

OF THE PRESIDENT OF THE REPUBLIC OF AZERBAIJAN

on Approval of the State Programme on Poverty Reduction and Economic Development in the Republic of Azerbaijan for 2003-2005

The consistent reform program carried out in the Republic of Azerbaijan in recent years has helped to ensure economic development, gradual improvement of macroeconomic performance and improvement of the living standards in the country. Thus, in the period 1996-2002, Gross Domestic Product increased by 1.7 times, capital investment increased by 7.8 times, nominal monetary income of population increased by 3 times and average monthly wages and pensions increased by 5 times. There are improvements in other economic performance indicators.

However, these ongoing efforts and achievements have not yet led to a sufficiently high level of economic development and the living standards of the population have still not reached international standards: part of population is still unemployed, minimum wages are not sufficient to meet the minimum subsistence level and a number of factors causing poverty have not been eliminated.

In order to further strengthen social protection of the population for the near future, ensure poverty reduction in the country and implement necessary measures to meet the commitments of the 2000 United Nations Millennium Summit, I hereby decree:

1. The "State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan for 2003-2005" shall be approved.
2. The Ministry of Economic Development of the Republic of Azerbaijan shall be responsible for coordinating the implementation of measures set out in the State Program.
3. The Cabinet of Ministers of Azerbaijan Republic shall be responsible for taking steps to ensure the implementation of this Decree.
4. This Decree shall become effective from the date of signature.

Heydar Aliyev
President of the Republic of Azerbaijan

Baku, February 20, 2003
N 854

Combating poverty is one of the main priorities for us. Policies are carried out in this direction, and the level of poverty decreases year by year in Azerbaijan... From this viewpoint, we should work in close collaboration with international organizations. There should not be any poor people in Azerbaijan.

Ilham Aliyev
President of the Republic of Azerbaijan

Our task is to strengthen the struggle against poverty, reduce and in future completely eliminate poverty in Azerbaijan.

Heydar Aliyev
National Leader of Azerbaijan

Foreword

As in many countries of the world, poverty in Azerbaijan represents a major obstacle to the sustainable development of society, and poverty reduction is one of the government's key priorities. In order to achieve poverty reduction in the country and improve the living standards of the population, the National Leader of Azerbaijani people, Heydar Aliyev, approved the "State Programme on Poverty Reduction and Economic Development" (SPPRED) on February 20, 2003 that includes, which sets out concrete policy actions in this regard to achieve these aims.

It should be noted that poverty reduction programmes are being implemented in more than 70 countries throughout the world, and that 191 countries have undertaken to halve poverty by 2015, in line with the Millennium Declaration adopted in New York by the UN General Assembly in September 2000.

Since the launch of the Programme, Azerbaijan has made significant progress in achieving the goals set out in the SPPRED, and also in defining the its country-specific Millennium Development Goals. The implementation status of the measures carried out under the Programme, and as well as their impact on the population's welfare, have been regularly monitored by the SPPRED Secretariat, and were summarised in the last annual report. This year's report looks at the achievements and challenges for 2003/2004.

Progress made in poverty reduction in the country has been achieved thanks to the active participation of, and cooperation between, the central and local executive bodies, and other relevant agencies, including international donor organizations, foreign and local NGOs, and civil society. I would like to express my profound gratitude to all of our partners for their valuable assistance in working towards the achievement of the goals; and also take the opportunity to invite them to join us in a new stage of cooperation, namely in the formulation and implementation of a Sustainable Human Development Programme, which will represent the next stage in the country's efforts to achieve sustainable economic development and poverty reduction.

Farhad Aliyev
Minister of Economic Development

**STATE PROGRAMME
On Poverty Reduction & Economic Development
2003 – 2005**

Progress Report – 2003/2004

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ACRONYMS:

ADB	Asian Development Bank	MPR	Millennium Project Report
AIDS	Acquired Immune Deficiency Syndrome	MTEF	Medium Term Expenditure Framework
ARRA	Agency for Rehabilitation and Reconstruction of Liberated Areas	MYST	Ministry of Youth, Sports and Tourism
AZM	Azerbaijan National Currency (Manat)	NB	National Bank
BTA	Baku-Tbilisi-Arzurum main gas export pipeline	NGO	Non-government Organization
BTC	Baku-Tbilisi-Ceyhan main oil export pipeline	NHDR	National Human Development Report
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women	ODA	Official Development Assistance
CIS	Commonwealth of Independent States	OECD	Organization for Economic Cooperation and Development
CM	Cabinet of Ministers	PIP	Public Investment Programme
DOTS	Directly Observed Treatment Short Course	PMU	Poverty Monitoring Unit
EBRD	European Bank for Reconstruction and Development	PPP	Purchasing Power Parity
EC	European Commission	PRSP	Poverty Reduction Strategy Paper
ECCD	Early Childhood Care and Development	AR	Republic of Azerbaijan
EPI	Expanded Programme on Immunization	RHS	Reproductive Health Survey
EU	European Union	SAP	Strategic Action Plan
EU TACIS	European Union Technical Assistance to the Commonwealth of Independent States	SCC	State Customs Committee
EUIP	Ecologically Urgent Investment Projects	SCRIDP	State Committee for Refugees and Internally Displaced Persons
FAO	Food and Agriculture Organization	SCWI	State Committee on Women's Issues
FSIS	Food Security Information System	SDFIDP	Social Development Fund of IDPs
FDI	Foreign Direct Investment	SES	State Employment Service
FSP	Food Security Programme	SFD	Saudi Fund for Development
GDP	Gross Domestic Product	Sida	Swedish International Development Agency
GEF	Global Environment Facility	SME	Small and Medium Enterprises
GTZ	German Society for Technical Assistance	SOCAR	State Oil Company of Azerbaijan Republic
HBS	Household Budget Survey	SO FAR	State Oil Fund of Azerbaijan Republic
HIV	Human Immune Deficiency Virus	SPPRED	State Programme on Poverty Reduction and Economic Development
IBTA	Institutional Building for Technical Assistance	SPSS	Software Package for Social Sciences
IDP	Internally Displaced Person	SSC	State Statistical Committee
IFC	International Finance Corporation	SSPF	State Social Protection Fund
IFI	International Financial Institution	TB	Tuberculosis
ILO	International Labour Organization	UN	United Nations
IMF	International Monetary Fund	UNDP	United Nations Development Programme
IOM	International Organization for Migration	UNEP	United Nations Environment Programme
IsDB	Islamic Development Bank	UNFPA	United Nations Population Fund
JSA	Joint Staff Assessment	UNHCR	United Nations High Commissioner for Refugees
KfW	German Bank for Development	UNICEF	United Nations International Children's Emergency Fund
LFPR	Labour Force Participation Rate	UNIFEM	United Nations Development Fund for Women
LFS	Labour Force Survey	USAID	United States Agency for International Development
LSSRIDP	Living Standards Survey of Refugee and IDP Population	USD	United States Dollars
MDG	Millennium Development Goal	USTDA	United States Trade and Development Agency
MENR	Ministry of Ecology and Natural Resources	WB	World Bank
MFE	Ministry of Fuel and Energy	WFP	World Food Programme
MICS	Multiple Indicator Cluster Survey	WHO	World Health Organization
MLSP	Ministry of Labour and Social Protection of the Population	WTO	World Trade Organization
MoED	Ministry of Economic Development		

Introduction

This report summarizes the progress made by Azerbaijan in implementing the SPPRED in the two year period 2003-2004. It updates the information provided in the first SPPRED implementation report (published in May 2004); and, as with the first report, it reports both on SPPRED implementation and on progress made in the country discussion of national MDGs. In this sense, it represents a combined SPPRED implementation/country MDG report.

In 2004, the SPPRED Secretariat under the MoED continued to monitor and coordinate implementation progress¹. Various activities were carried out by the Secretariat's team of national and international experts. One team liaised with the fifteen Sector Working Groups responsible for the policy measures being implemented in the different sections of SPPRED's policy matrix. This team also visited the regions, in order to do selected on-site monitoring of implementation progress. A second team, working in the PMU, continued its work on collecting statistical information related to monitoring the final poverty impact of the policy measures being implemented under the SPPRED. The PMU experts also liaised with the UN on formulating preliminary MDG targets and indicators for Azerbaijan. A third team worked on the monitoring of budget expenditure, checking that the budget allocations were in line with the three-year MTEF attached to the SPPRED, and that the policy measures envisaged in SPPRED were in fact being financed by either domestic sources, or donor aid. And a fourth team coordinated work on taking forward the participatory discussion process. As in 2003, this discussion process was carried out within the framework of a series of "Town Hall Meetings" held in various regional centres of the country.

This report is a compilation of the reports provided by these four teams of experts. Chapter 1 summarizes the MDG debate in the country, and places this within the context of the global discussion on MDGs. Chapter 2 is attempts to use the available statistical information in order to look at the status of indicators which can be used to monitor various dimensions of poverty. As in 2003, it looks at indicators for demography, economic development, income poverty, employment, education, health, social protection, and environment. It also looks at the data available to monitor the situation of one of the country's most vulnerable groups, namely refugees and IDPs. This year, chapter 2 also includes a new section on gender, which summarizes the information available in the country for looking at the different effects which various aspects of poverty can have on men and women.

Chapters 3, 4, 5, 6 represent a summary of all the implementation reports for the period of 2003-2004 provided by the 15 Sector Working Groups working under the SPPRED. These chapters contain lists of all the measures implemented for each sector, and details the support received by various donors to help with implementation. Chapter 3 contains the implementation reports for Fiscal Policy, Monetary Policy and Banking, Investment Policy, Energy Policy, and Employment Policy. Chapter 4 summarizes progress in the implementation of the policy measures envisaged for the Education, Culture, Health, Social Protection, and improvement of the living standards of Refugees and IDPs. Chapter 5 looks at implementation progress for Regional Policy and Infrastructure Development, and includes sections on public investment in utilities and infrastructure; agriculture, irrigation, land protection and water resources, environmental safety and tourism. Chapter 6 summarizes the implementation of the policy measures envisaged in SPPRED for institutional reform, and has sections on Public Administration Reforms, Judicial and Legal Reforms, Combating Corruption, Decentralization (municipalities), and Poverty Monitoring.

Chapter 7 is a summary of the Town Hall Meetings and participatory discussions with civil society held in 2003-2004 within the framework of participation process.

¹ The work of the Secretariat was supported in 2004 by the UNDP, ADB, WB, USAID and GTZ.

Chapter 1. SPPRED and the MDGs

In the year 2000, the former President and National leader Heydar Aliyev, signed the Millennium Declaration on behalf of the Republic of Azerbaijan. This Declaration, which was signed by a total of 191 nations, represents a commitment to halve the number of the world's population living in poverty by 2015. In order to meet the challenges set out in the Declaration, a set of 8 global MDGs were formulated; with 18 concrete (quantifiable) targets, and 48 indicators for monitoring progress in achieving the goals and targets. Azerbaijan, like the other signatories of the Millennium Declaration, has embarked on the task of adapting the global MDGs to its specific conditions, and is discussing the policy efforts and budget allocations which will be required in order to achieve them.

Azerbaijan has adapted the global goals slightly in order to formulate its country-specific goals, and is gradually defining its country-specific baselines, targets, and monitoring indicators. The latest outcomes of this discussion process are summarized in the table in Appendix 1, which gives an update on the country-specific goals, targets, baselines and indicators as formulated so far. An overview of the organization of the MDG discussion process in the country is given in this chapter; the main challenges encountered so far are summarised; developments in the discussion of global MDGs and the factors which can help (or hinder) Azerbaijan to achieve its own MDGs by 2015 are considered.

■ *The Process*

As reported last year, the government of Azerbaijan decided in 2003 to align the MDG process with that of SPPRED. There were several reasons for this decision, the main ones being as follows:

1. The end aim of the MDGs and of SPPRED is poverty reduction. It does not make sense to have two parallel processes going on in the country for the same end aim, especially since the policy priorities identified in SPPRED are fully compatible with the global MDGs.
2. SPPRED has in many ways acted as a first "needs assessment" for defining and costing the country's MDGs.
3. More groundwork for costing the country's MDG targets and linking them to the country's budget possibilities is being undertaken through the work of the SPPRED Secretariat in linking the country's MTEF to policy proposals envisaged under SPPRED.
4. The SPPRED Secretariat has been working on compiling and improving poverty monitoring indicators for the country, and this work feeds into the definition of indicators for monitoring achievement of country-specific MDGs.
5. The major donors supporting SPPRED have supported the integration of the country's MDG and PRSP processes. At the international level, the WB and UNDP issued a joint statement in 2003, stating inter alia that PRSPs are the ideal vehicles through which to mobilize the country's resources to achieve MDGs. In 2002, the ADB adopted the MDGs as its principle targets for poverty reduction. At the national level, SPPRED has proven to be a good focus for donor coordination.

■ *The Challenges*

In the course of the last 18 months (since the MDG discussion was launched in the country), there have been several challenges encountered:

Baselines and Indicators: The main challenge encountered in the country MDG process is the lack of a strong statistical base for setting baselines for targets, and also for defining sensible monitoring indicators. Discussion has continued and for most targets, preliminary agreements have been reached. However, the MDG process is proving useful in re-inforcing the arguments in the country for the need to have a stronger statistical basis for understanding and defining the policy priorities for the country. If we cannot have a clear and realistic picture of the baseline situation, how can we set realistic targets? What is the point of setting targets, if we cannot monitor

their achievement? The data problems are with the quality of the data collected (such problems have been met particularly in the case of infant and maternal mortality, but also in other areas, such as employment, and safe drinking water); in other cases there is just a lack of regular data collection (e.g. quality of education).

The baseline year for the global MDG targets is 1990. However, the discussion process has showed that 1990 is not a suitable baseline year for Azerbaijan. While last year different baseline years were considered for different targets (ranging from 1990 to 2002), it is now proposed to take 2001/02 as the baseline year for all country-specific targets. This is because poverty is considered to be a multi-dimensional phenomenon, with all different aspects reinforcing each other. It is considered better to have the same baseline for all indicators, to have a complete picture, and to move parallel towards the goals. Since poverty data for monitoring purposes is available only since 2002 (poverty estimates prior to this were based on one-off surveys, and did not allow monitoring of trends over the years), it is considered appropriate to take 2001/02 as the baseline for all other indicators.

Apart from questions of data availability, 1990 (the baseline year for the global MDGs) is not considered a good baseline for the transition countries, because it predates the socio-economic upheavals of the first years of transition when most indicators deteriorated. The situation in most countries began to improve after 1995/96. Setting targets using the 1990 baseline would mean setting too ambitious targets, which would be difficult to achieve, and would not give credit to the achievements made in recent years in improving some social indicators.

Costing: Costing of MDGs is a complex exercise. First steps in linking policy measures to budget possibilities were undertaken in the formulation of SPPRED, where a first rough estimate of the cost of implementing the policy measures envisaged under the three year programme was completed. In the past year, work has been continued in tracking budget expenditure, in order to ensure that expenditure is in line with SPPRED priorities. However, more work is needed (and is ongoing) to strengthen the connection between budget processes and SPPRED implementation.

Localisation of MDGs: No work has yet been attempted in the sphere of localizing MDGs at the regional level, although some discussion has begun within the context of the regional Town Hall Meetings.

■ *How are the Challenges being met?*

We are now entering into the last year of SPPRED implementation. This raises the question of how the MDG process will continue. This question is important, since the MDGs provide a valuable overall and longer-term vision for the country's development, but a national development strategy, linked to the country's budget and PIP, is the necessary mechanism for translating this vision into concrete policy actions to achieve the longer term goals.

This has been recognized by Azerbaijan, and a decision has been taken to continue the process of aligning the MDGs with the next stage of formulating the country's national development strategy. The Minister of Economic Development announced in October 2004 that the next stage of SPPRED will be a ten year programme, for the period 2006-2015. This will allow even better alignment of the country's national development strategy with its MDGs. However, in line with the recommendations made in the MPR (see below), policy measures may also be linked to the shorter three-year time framework established for budgeting and costing (as with the first MTEF).

Work on the formulation of this new programme is beginning now, and will be carried out intensively in the coming months. Working groups will be set up for each of the MDGs, including representatives of ministries and government agencies, NGOs, research institutes, and donor organizations. These working groups will work on the definitions of targets and indicators, as well as the concrete policy measures required to achieve them.

The participatory discussion will be continued through the regional workshops (Town Hall Meetings), which have become an integral part of the SPPRED process, and which will continue this year. This will be the main vehicle for pushing forward the localization of the MDGs in the country.

A team of national and international experts, supported by the WB, will also be working on the next MTEF, and establishing ways in which to better track the links between budget spending and the public investments required to achieve the country's MDGs.

The UNDP and the USAID will be supporting the MoED to design the country's PIP, and ensure that it is in line with the country's MDG targets as well as its budget possibilities.

Another team of experts, supported by the UNDP and ADB will be working on further developing the monitoring and evaluation system, in order to identify suitable impact and process indicators to monitor achievement of the MDG targets.

■ *Developments in the Global MDG Debate*

The latest developments in the global MDG debate have recently been summarized and publicized in the MPR (January 2005). This report represents the results of the Millennium Project, which was commissioned by the Secretary General of the United Nations in 2002. Under this project, ten taskforces worked to produce a series of recommendations to help individual countries develop operational frameworks to achieve the MDGs by 2015.

The report sets out a broad range of recommendations aimed at all the signatories of the Millennium Declaration. The recommendations, which are most relevant to the process and country-specific conditions in Azerbaijan are highlighted below.

1. The first recommendation in the MPR is that country governments should: "adopt development strategies bold enough to meet the MDG targets for 2015. We term them MDG-based poverty reduction strategies. To meet the 2015 deadline, we recommend that all countries have these strategies in place by 2006. Where PRSPs already exist, those should be aligned with the MDGs." (MPR, p.xiv)

Here Azerbaijan can be said to be one of the countries in the forefront of implementing this recommendation, certainly within the CIS region.

2. Another recommendation which runs through the MPR is that of carrying out a needs assessment (costing of the MDG targets), and then making sure that public investments in infrastructure and human capital are planned in accordance with the needs assessment. Within the CIS group of countries (including Azerbaijan), the report recommends that investment strategies should focus on transport and energy infrastructure, improved water and sanitation facilities, capacity in public management systems, resources for health and education systems, and environmental management and planning, while also improving the policy environment for private sector development. (MPR, pp 32-33)

Azerbaijan has begun work on developing its first PIP. There is a fortunate opportunity now to align it with the priorities identified in the 10 Year Programme, and the costing of these priorities.

3. The report recommends a "bold needs-based, goal-orientated investment framework over 10 years, aimed at achieving the quantitative targets set out in the MDGs." A four-step approach is recommended:

- First, each country should map the key dimensions and determinants of extreme poverty, as best as possible with available data;
- Second, each country should carry out a needs assessment to identify the specific public investment necessary to achieve the Goals;
- Third, each country should convert the needs assessment into a framework for action, including public investment, public management and financing;
- Fourth, each country should elaborate a 3 to 5 year MDG-based poverty reduction strategy within the context of the 10-year framework (MPR, p 24).

Azerbaijan has carried out the first step, although the understanding of the dimensions and determinants of poverty is still being developed and refined. Measurement problems (data collection and definitions) for most aspects of poverty still exist, and the time has come to adopt concrete action plans to address these.

The second and third steps will be carried out in the course of this year. The mechanisms for linking the 10-year plan to a 3-year expenditure programme will also have to be worked out this year.

4. Governance. The original Millennium Declaration states that success in meeting the twin objectives of eliminating poverty and creating an environment which is conducive to development, depends, inter alia, on good governance within each country. The MPR also stresses that achievement of the MDGs will require not just public investment in infrastructure and human capital, but also investments in improving governance. Failure to do this may jeopardize the chance of achieving the goals, even if investments are made in the first two factors. The investments in good governance include making sure that there is a properly resourced and adequately staffed legislature, judiciary and executive branches of government. It also includes systems of political and bureaucratic accountability, transparency, and participation. Investing in good macroeconomic management and corruption-free delivery of public services are also seen as being key to private sector development (MPR, pp 35-36).

The Government of Azerbaijan has recently taken several measures which demonstrate its determination to tackle corruption (these are reported in detail in Chapter 6). It has signed the United Nations Convention against Corruption, the OECD's Anti-Corruption Action Plan, and several European Council conventions. A new Law "On Combating Corruption" has been adopted (March 2004). This law, as well as the State Anti-Corruption Program for 2004-2006, are part of the Government's efforts to improve the morale and quality of civil servants responsible for the management of the economy and delivery of public services. The Law came into force on 1 January 2005, and an Anti-Corruption Commission has been established under the State Council for Civil Service Management to oversee its implementation.

In line with these efforts, and in recognition of the central role which good governance plays in poverty reduction, the Government is now discussing the possibility of formulating an extra national MDG to address governance issues. The first proposal for "MDG 9" is set out in the summary MDG table, attached as Appendix 1 to this report².

■ *Can Azerbaijan Achieve the MDGs?*

One of the milestones in this calendar year will be the meeting of the signatories of the Millennium Declaration in September in New York, where progress in achieving the MDGs will be discussed (MDGs plus five). Azerbaijan will participate in this meeting. In the light of the MPR, and the country experience so far in the MDG discussion process, the following considerations seem relevant to Azerbaijan's report at this conference.

1. Azerbaijan has demonstrated the political will to work towards achieving the MDGs. This was clearly stated in its first SPPRED/ MDG report, and is reflected in its proposal to develop the new 10 Year Development Programme for the period 2006 – 2015.
2. Azerbaijan has the prospect of significant increases in revenue from oil production, meaning that it will have the resources to finance much of the public investment needed in order for the country to achieve the MDGs by 2015.
3. Azerbaijan has also demonstrated the political will to spend its oil revenue prudently. A clear reflection of this is the establishment of the SOFAR, and the recent Presidential Decree on "The Long-Term Strategy on the Management of Oil and Gas Revenues" (#128, 27 September 2004). This strategy for the period 2005-2025 sets out the commitment to carry out long-term projections of oil and gas revenues; establishes the principles for the long-term use of oil and gas revenues, while using medium-term expenditure plans and PIP; and establishes the main objectives for the use of oil and gas revenues. The latter include development

² Albania has provided a very useful example of how such a goal on governance can be formulated.

of the non-oil sector, regions, SMEs; large-scale development of infrastructure; implementation of poverty reduction measures, and development of human capital.

4. Azerbaijan is also relatively advantaged due to its human resources. The country has high levels of education and almost universal literacy. The government has also shown its readiness to invest in its human capital, by, *inter alia*, working with the UNDP on “Converting black gold into human gold”, a programme aimed at contributing to the planning of how to use the oil revenues managed by SOFAR and the PIP to develop human capital. This involves investment in the education sector, and promoting study of young Azerbaijanis abroad, as well as bringing international expertise to strengthen the country’s higher education system.
5. The Azerbaijan government has gained the trust of the donor community, which has shown its readiness to act in a coordinated manner to improve the effectiveness of their support. This was demonstrated most clearly in the formulation stage of SPPRED.
6. The Azerbaijan government is working in partnership with the local representations of the UN agencies. The 10 Year Programme is being coordinated by the MoED in partnership with the UNDP. Individual UN agencies are providing their expertise and guidance to the SPPRED Secretariat in the discussion of country-specific MDGs. For example, UNDP is providing assistance and expertise for Goals 1, 7; while UNICEF is providing assistance for Goals 2, 4 and 6; UNFPA is guiding discussion on Goals 3 and 5; WFP is the leading UN agency for the nutrition target under Goal 1; and the Office of the Resident Coordinator is responsible for coordinating with the government on Goal 8.
7. The government has demonstrated its determination to improve governance through the recent Law on Combating Corruption outlined above, as well as in its proposal to add a national MDG target for improving governance. It is also continuing to support the development of civil society and its involvement in the MDG process.

The MPR ranks Azerbaijan as one of the countries which can be placed on the “fast track” for achieving the MDGs (pp 50-53). This is mainly due to its success in formulating and implementing SPPRED, and aligning it with the MDGs. The report argues that if countries such as Azerbaijan are given full donor support, they have the possibility to achieve the MDGs.

To summarise: if Azerbaijan continues on the track which it has set out on, and donor coordination and support to the process continue, the prospects for meeting its country-specific MDGs are good.

The following table is based on the MPR, Table 1, p. 3 “Major Trends in the Goals by Region.” It gives a summary of the authors’ rating of the progress being made by regions of the world in meeting the global MDGs. Here, the ratings for the CIS countries (which are divided into Europe and Asia, see columns 2 and 3) are taken (from Table 3 of the MPR).

There are three colour codes for rating trends. **Green** signifies that the country has either met or is on track to meet the goal; **yellow** signifies that the country is making progress, but too slow; and **red** signifies no or negative change.

Azerbaijan has a better chance than most other CIS countries of meeting MDG 1 (reducing poverty and extreme poverty), providing that efforts are continued to use oil revenues prudently; to develop the non-oil sector through an improved investment and business environment; and to ensure a more equitable distribution of the benefits of economic growth – throughout the regions, and all sections of the population.

The country is on track for MDG 2 (universal primary education), and is rated higher than the European countries of the CIS, but has to concentrate on improving the quality of school education.

For MDG 3 (Gender Equality and Empowerment), efforts have to be made to halt the trend towards gender inequality in enrolment in the higher classes of secondary school. There have been recent increases in women’s representation in Parliament, although the share of women remains low.

For MDG 4 (Child Mortality), sustainable progress will depend on reduction in income poverty (MDG 1), and further improvements in the access and quality of health services through Primary Health Care Reform. For MDG 4 and 5 there are problems of data collection and definitions which still have to be solved in order to set realistic and meaningful national targets.

For MDG 5 (Maternal Mortality), there are measurement problems, and there is a need for improvement in this regard.

For MDG 6 (HIV/ AIDS, malaria and other diseases), the country has so far managed to contain the spread of HIV/AIDS to a greater extent than in some other countries of the CIS; malaria has also been contained, and like other CIS countries, Azerbaijan has had some recent success in improving the prevention and cure of TB.

With regard to MDG 7 (environmental sustainability), the country has to work on reversing the loss of area covered by forest, and to ensure that environmental concerns are taken into account at all levels of policy making. While it is on track for supply of improved drinking water for urban areas, progress is still slow in rural areas. Efforts are required to ensure that the quality of piped water meets international health standards, and regular supply is ensured through utility reforms and public investment in infrastructure.

In MDG 8, youth unemployment is being addressed to a certain extent through the Government's Regional Development Programme, which aims to promote job creation in the regions.

Table 1.1. Progress in Meeting the MDGs: CIS countries

	Commonwealth of Independent States	
	Europe	Asia
Goal 1: Eradicate extreme poverty and hunger		
Reduce extreme poverty by half		
Reduce hunger by half		
Goal 2: Achieve universal primary education		
Universal primary schooling*		
Goal 3: Promote gender equality and empower women		
Girls' equal enrolment in primary school		
Girls' equal enrolment in secondary school		
Literacy parity between young women and men		
Women's equal representation in national parliaments		
Goal 4: Reduce child mortality		
Reduce mortality of under-five-year-olds by two-thirds		
Measles immunization		
Goal 5: Improve maternal health		
Reduce maternal mortality by three-quarters		
Goal 6: Combat HIV/AIDS, malaria, and other diseases		
Halt and reverse the spread of HIV/AIDS		
Halt and reverse the spread of malaria		
Halt and reverse the spread of TB		
Goal 7: Ensure environmental sustainability		
Reverse the loss of forests		
Halve the proportion of people without improved drinking water in urban areas		
Halve the proportion of people without improved drinking water in rural areas		
Halve the proportion of people without sanitation in urban areas		
Halve the proportion of people without sanitation in rural areas		
Improve the lives of slum dwellers		
Goal 8: A global partnership for development		
Youth unemployment		

* results based on measurements of enrolment rate. Results may change if based on measurements of primary completion rates.

Chapter 2. Poverty Monitoring

Demography

■ Background

To understand recent trends in Azerbaijan's socio-economic life, it is crucial to look at the demographic situation in the country. The primary source for most demographic indicators is the population census. The last census in Azerbaijan was carried out in 1999, and the results show that there were 7953.4 thsd. people living in the Republic at that time. Demographic indicators have been recalculated for every year since the census, with adjustments being made according to the number of registered births, deaths and migrants for each year.

Over the past twenty years, there has been a trend away from big families to medium ones. In the first years following the independence, a decline in the demographic, as well as reproductive health indicators, was observed. According to the SSC, the country had a population of 8265.7 thsd. people at the beginning of 2004, of which the female population comprised 50.9% (2459.4 thsd. of whom are of fertile age). Approximately 51.5% of the population lives in urban areas, and 48.5% in rural areas (SSC, 2004).

The population is growing annually by about 8 persons per 1000. This population growth is due mainly to natural increase, which fell slightly from 9 per 1000 population in 1999, to 8 in 2003 (it was 19.8 per 1000 in 1990). In 1990, the birth rate per 1000 of the population was 26.3, but since 1992 there has been a decline in the birth rate, and it dropped to 19.1 in 1995, and 14 in 2003. The death rate was higher in the period 1992-1994, due to the war with Armenia, and peaked in 1994 at 7.3 deaths per 1000 population. The birth rate among the rural population is higher than that of the urban population (15.9 per 1000 compared to 12.2 in 2003), and 55% of all births are in rural regions.

The total fertility rate³ has tended to decrease along with the birth rate. This indicator fell from 2.8 children per woman in 1990 to 1.9 in 2003. However, the only group for which the fertility rate has not declined is that of young women (15-19 years of age), which had a fertility rate of 44 per 1000 women in a period of May 1998 – April 2001 (number of live births to women aged 15-19 per 1000 women in this age group during a specified period) according to survey data⁴. According to administrative

data, adolescent fertility rate was 41.4 (live births per 1000 women aged 15-19 years) in 1997 and decreased to 26.3 in 2002, before increasing again up to 27.7 in 2003. The overall share of births to mothers aged 15-19 years in the overall number of births increased from 4.7% to 10.6% in the period 1990-2003. Although the reported total fertility rate has declined, the population is expected to continue to increase because of the greater number of women of childbearing age who were born during the earlier periods of high fertility.

As mentioned above, there is a higher natural increase of population in rural areas (Figure 2.1). Since the late 1990s, the previous trend towards urbanization has been reversed. This is largely the result of the growing numbers of the urban population deciding to emigrate. As a result, the urban share of the population fell from

Table 2.1. Fertility rate (average number of schildren per woman)

	1990	1995	2000	2001	2002	2003
Total	2.8	2.3	2.0	1.8	1.8	1.9
Urban	2.7	2.0	1.6	1.6	1.6	1.7
Rural	2.7	2.6	2.2	2.1	2.1	2.1

Source: SSC

³ The potential average number of children that could be delivered by a woman throughout her entire fertility period (15-49 years), assuming birth rates for each age group to be those for the year being studied.

⁴ Source: RHS: Azerbaijan, 2001. Final Report, March 2003.

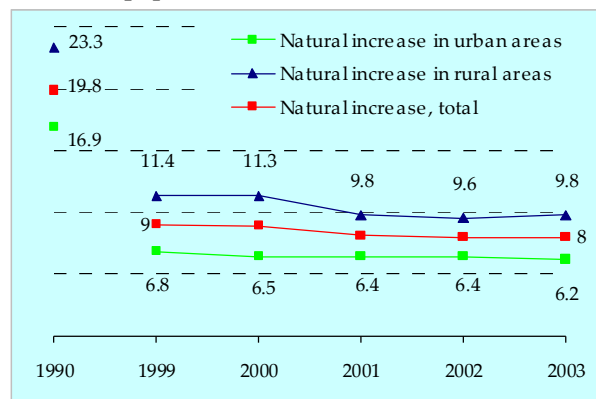
54.2% in 1990 to 50.7% in 2003 (SSC, 2004). However, there was a slight shift of the population to urban areas during 2003. The share of urban population increased from 50.7% at the beginning of 2003 to 51.5% at the beginning of 2004.

The sharp contraction in the birth rate since 1990, when the indicator was 25.9 births per 1000, has led to an aging of the population. The share of people in the younger age groups is decreasing, while the share of the older population is increasing (Figure 2.2). The share of the population of working age in the overall population increased from 56.8% at the beginning of 1999, to 64.2% at the beginning of 2004⁵. This increase in the share of population of working age has led to a reduction in the dependency ratio (the ratio of population in the “dependent age groups” – i.e. those below and above working age, as a ratio of those of working age). This indicator has gradually decreased from 81% in 1990, to 76.1% at the beginning of 1999 and to 55.8% at the beginning of 2004. The share of women in the fertile age group has also gradually increased: from 50.1% of the total female population at the beginning of 1990, to 58.5% at the beginning of 2004.

The current gender distribution of the population is almost equal. The share of men in the total population is 49%, and the share of women 51%. However, the dynamics of births by gender suggests that the share of parents who prefer to have boys is increasing. The share of boys in overall number of births increased from 51.6% in 1990 to 54% in 2003. Attitudes of the population may have been influenced by the economic and social difficulties experienced by the country, as well as by the war. If the situation continues, it could lead to demographic problems in future years.

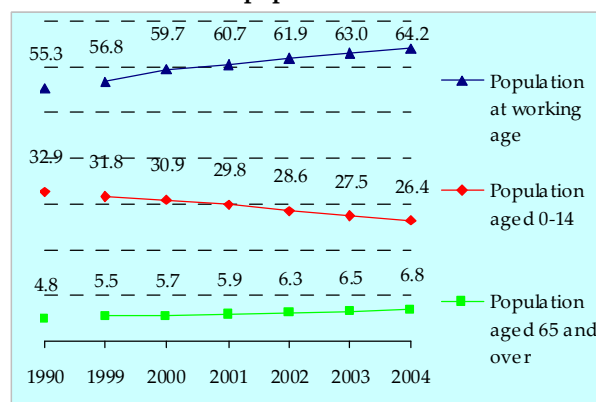
Migration trends have not had a significant effect on population growth. As in previous years, the net migration rate has tended to decrease and reached an estimated level of -0.16 persons per 1000 population in the year 2003. According to the SSC, 2500 persons came to Azerbaijan and 3754 left the country in 2003, in comparison with 4806 and 9142 in 1999. Overall, a total of about 251.6 thsd. people have come to the country and 432.1 thsd. have left since 1990. Most of the migration processes took place in the early 1990s, with most movement between Azerbaijan and CIS and Baltic countries: these represented 98.4% of all arrivals to the country and 96.8% of departures in 2003. 67.3% of arrivals from and 86.4% of departures to CIS and Baltic countries were in fact arrivals from and departures to Russia. These official figures may underestimate the real situation, since they are based on official migration figures, and not all migrants actually migrate using legal channels. As indicated above, there has also recently been a net emigration from the countryside to towns, as many rural residents have relocated to urban areas where they have better access to temporary employment.

Figure 2.1. Natural increase of population (per 1000 population)



Source: SSC

Figure 2.2. Share of population under 15 years, working age population, and population over 65 years (% of total population)



Source: SSC

⁵ The increase in the share of population of working age was due not only to the reduction in birth rate, but also to the increase in the definition of working age in 1999 and 2001.

Population growth in the period since the last population census has led to a rise in population density, which grew from 91.8 to 96.1 persons per square kilometer, if calculated within the territory of 86.6 thsd. square kilometers. However, due to the fact that about 20 percent of the territory of Azerbaijan is occupied by Armenia, and all the Azeri population has been forced to leave the occupied territories for other regions of the country, the population density is more likely to be about 120.2 persons per km².

Box 2.1.

There is some evidence that the current indicators for number and growth of the population underestimate the real situation. In order to estimate the number of population in a certain year, the number of births and net migration in the period since the last population census is added, and the number of deaths is subtracted, from the last census data on the number of the population. The SSC collects the data on births and deaths from Civil Registry Offices. However, by no means all births and deaths are registered at these offices. According to the findings of the "Survey on Registration of Infant Birth and Mortality in Azerbaijan" carried out by SSC, Sida and the Swedish Statistical Office in 2003, 15% of births and 55.2% of infant mortality cases were not registered in 2002 (the latter is discussed further in the chapter on Health). The survey suggests that the situation with regard to registration of births in rural areas is worse than in urban areas: 17.5% of the number of newborns were not registered in rural areas, compared to 11.8% in urban areas. The survey results also suggest that the figure is higher for boys (55%, against 45% for girls), lower for children of mothers with refugee and IDP status (8.5%) and that the situation improves with mother's age (8.4% for mothers aged 40-49 in comparison with 40.2% for mothers aged 15-17). The share of mothers not registering their children was 12.3% among married women, 47.5% among unmarried women and 38.7% among divorced women. All the surveyed widowed mothers had registered their children born in 2002 at the Civil Registry Offices.

Another factor that directly affects population growth in the case of Azerbaijan is fluctuation in marriage rates. Table 2.2 shows the marriage and divorce rates per 1000 population. Both of these indicators tended to decline from 1990 to 1999, and slightly increased in the period after. Throughout the 1990-1999 period, the number of marriages per 1000 population declined from a high of 10.4 to a low of 4.8, and the number of divorces per 1000 population from 2 to 0.6. In 2003, the number of marriages increased to 6.9 per 1000, and the number of divorces to 0.8.

While the marriage rate decreased, the share of births out of wedlock as a share of the total number of live births increased (see: Chapter on Gender).

One of the indicators related to poverty is life expectancy at birth. Life expectancy at birth indicates the number of years a newborn infant would live if

prevailing patterns of mortality at the time of its birth were to remain stable throughout his/her life. According to administrative data, life expectancy at birth was estimated in 1990 as 71.1 years (67 for men and 74.8 for women), and this indicator decreased to 69.1 years (65.2 for men and 72.9 for women) in 1995. This is a negative result of the Garabagh war. The war started in 1988, and reached its peak in 1991-1993, causing the death of thousands of people. A cease-fire was declared in 1994, and life expectancy has been increasing since that time. It should be mentioned that since 1995, life expectancy for men has increased by 4.3 years, while life expectancy for women increased by 2.2 years. In 2003 it was estimated to be 72.3 years – 69.5 for men and 75.1 for women. Higher rates of mortality among the male population and the large discrepancy between the life expectancy of males and females are issues of concern.

Table 2.2. Marriages and divorces (per 1000 population)

	1990	1995	2000	2001	2002	2003
Marriages	10.4	4.8	5.0	5.2	5.2	6.9
Divorces	2.0	0.6	0.7	0.7	0.7	0.8

Source: SSC

Economic Development

■ Background

In 2003-2004, the economic development policy of the country was focused on achieving sustainable social and economic development. It built on the successes of the 1995-2002 period, by deepening economic reforms, strengthening existing potential and increasing the efficient use of it. In line with the goals and objectives of SPPRED, the following achievements in the economic sector in 2003-2004 should be mentioned:

- Maintaining macroeconomic stability and achieving sustainable economic growth;
- Improving efficiency in the management of the economy;
- Strengthening the potential of the non-oil sector; speeding-up restructuring and encouraging creation of new jobs;
- Improving the investment climate and encouraging development of entrepreneurship, production, social and market infrastructure in the regions;
- Strengthening efforts aimed at the efficient integration of the national economy into the world economy etc.

The rest of this section outlines the main changes and trends in the economy for 2003-2004.

■ GDP dynamics

GDP in 2004 increased by 6819.1 bln. AZM, from 35053 bln. AZM in 2003 to 41872.5 bln. AZM; the real increase was 10.2% (in 2003 -11.2%) (Figure 2.3.). If a 1% increase in GDP was the equivalent of 357.3 bln. AZM in 2003, in 2004 it was equal to 418.7 bln. AZM. The real growth in GDP per capita was 9.2% in 2004 (in 2003 - 10.3%), and reached 5114.8 thsd. AZM (USD 1041). In 2004 the deflator index was 106.4% of GDP (in 2003 - 104%).

The statistical data show that during the reported period overall macroeconomic stability in the country was strengthened and the strong economic growth rates, observed over the last years, were maintained.

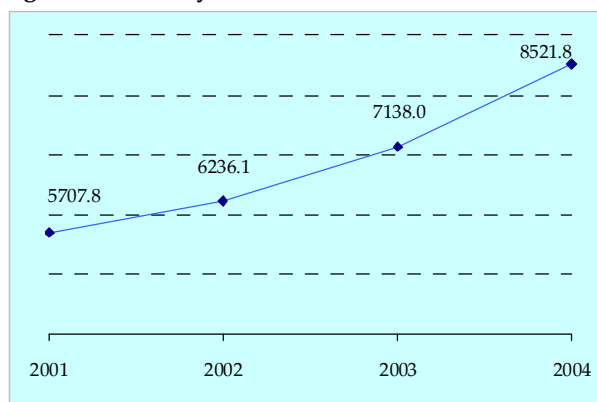
This means that the economic foundations of the state are getting stronger, and that there are new opportunities for the implementation of more effective measures aimed at solving the social and economic problems of the country, and particularly reducing poverty.

■ Inflation and exchange rates

In 2004 inflation and the national currency exchange rates were maintained at a satisfactory level. The average annual rate of inflation was 6.7%. Although this is 4.5 item higher than in 2003 (2.2%), it did help to promote business activity. The average annual exchange rate of the national currency (AZM) to USD in 2003 was 4910.8 AZM; in 2004 – 4913.6 AZM. The official exchange rate of the AZM to USD was strengthened in a fluctuating-regulated regime by 20 AZM, i.e. 0.41%, and was 4903 AZM by the end of the period. The nominal exchange rate ensured positive dynamics in the real effective exchange rate index and helped to maintain the international competitiveness of the country's economy within this period.

The NB intervention in the currency market was purchase-oriented within the considered time period (USD 158.7 mln.) and served to improve the money supply of the economy, maintain the exchange rate of the national currency at a satisfactory level and prevent “the Dutch disease”.

Figure 2.3. GDP dynamics (bln. AZM)



Source: SSC

■ *Fiscal status*

Both the revenues and expenditures of the State budget considerably increased in 2004. Revenues increased by 34.7% in 2003 and amounted to 6104.5 bln. AZM; in 2004 it increased by 20.8% and amounted to 7405.8 bln. AZM. Expenditures increased by 32.5% and amounted to 6173 bln. AZM in 2003; in 2004 it increased by 21.6% and amounted to 7505 bln. AZM. As a result, overall budget expenditure exceeded revenues by 99.2 bln. AZM, and the budget deficit was 0.2%.

By the end of 2004 the monetary reserves of the Republic of Azerbaijan (including the reserves of SOFAR) had increased by 17.5%, compared to the same period in 2003 (in 2003 – 14.4%), from USD 1572 mln. to 1847.4 mln.

Pragmatic external borrowing policy also continued in 2004. As of January 1, 2004 the amount of external debt to be paid was USD 1575 mln. (22.1% of GDP); and as of January 1, 2005 it was USD 1588 mln. (18.6% of GDP). As of January 1, 2005 the amount of external debt per capita was USD 191, compared to USD 189 on January 1, 2004. This is a relatively low level compared to developing countries and other countries with transition economies.

■ *Monetary status*

Due to the sustained level of high economic growth, the country's economic strength increased. As a result, large-scale socio-economic programs could be implemented, including use of oil revenues for development purposes, and these led to an increase in the demand for money in the country. In line with this, money supply had a high growth rate in 2004. Thus, the national currency reserves in AZM increased by 38.2% in 2004 (23.7% in 2003), and as of 1 January 2005 amounted to 3200.2 bln. AZM. In 2004 the broad money mass (M2) in AZM increased by 31.9% (28% in 2003) and reached 3418 bln. AZM. Since this increase outstripped the increase in the inflation rate, the real increase rate of M2 was also high - 19.5% (in 2003 - 25.2%).

As a result, the level of monetization increased in line with the economic growth rate. Thus, as of the end of 2004, the ratio of the money mass to GDP (for the non-oil sector) increased by 1.04% and the money turnover rate fell by 8.8 percentage item, pointing to an improvement in the money supply of the economy.

Although cash in the money mass increased by 17.1% (in 2003 – 22.3%) during the reported period, the non-cash money mass increased by 86.6% (in 2003 – 54.4%). This led to a strengthening of such positive trends as decrease in the share of cash money mass and increase in the non - cash money mass (in 2003 – 3.7%, in 2004 – 8.8%). The measures which were implemented for the development of banking infrastructure in the country, especially the introduction of advanced payment systems, creation of the electronic accounts system, expansion of the use of plastic cards, all contributed to the speeding up of this trend.

The level of dollarization decreased in 2004. Although the overall amount of savings and deposits in foreign currency increased by 63.8%, savings and deposits in AZM also increased by 86.6% and these led to a 2% decrease in the share of savings and deposits in foreign currency in total savings (in 2003 – 2.3%). This shows that the confidence of economic entities in AZM has increased, and also points to a strengthening of the role of AZM in economic turnover.

The total amount of savings and deposits in 2004 increased by 67.9% (in 2003 – 35.3%), and reached the level of 5126.2 bln. AZM. This includes deposits of legal entities, which increased by 73.5% and amounted to 3110.6 bln. AZM; and savings of individuals, which increased by 60% and amounted to 2015.6 bln. AZM. Most importantly, short-term savings of individuals increased by 53.5% (11% in 2003), while long-term savings increased by 66.5% (3.2 times in 2003). The interest rates on deposits remained relatively stable in 2004. Thus, the average interest rate on AZM deposits increased from 6.5% to 6.93% by December 2004, while the average interest rate on foreign currency deposits decreased from 10.08% to 9.43%. This points to a further increase in the confidence of the population in the banking system.

The discount rate on centralized credits remained unchanged in comparison with the previous year and was 7%; reserve requirements were 10% for short-term deposits and zero for long-term deposits.

The average nominal interest rates on credits increased slightly in 2004. Thus, the interest rate on credits in AZM as of the end of December 2004 was 15.6%, which is 0.7% more than at the end of the previous year (14.9%). However, given that the level of inflation for this period was 6.7%, the real interest rate actually decreased by 6%.

■ Investment and credits

Gradual liberalization of the economy, the measures implemented in privatization and speeding up of the development of entrepreneurial activity within the reported period, led to an increase in the amount of investment in the economy (Figure 2.4). The volume of investment in fixed capital increased by 28% and amounted to 24.2 trln. AZM (USD 4.9 bln.), 73.7% of which were foreign investments. The increase in the share of domestic investments in total investment from 23.2% to 26.3%, points to an increase in the potential of local investors and an increase in their investment opportunities.

As can be seen from Table 2.3, 23.6% of total investment went to the non-oil sector. The fact that the growth rate of investments made to the non-oil sector (39.8%) is higher than the growth rate of investments to the oil sector (35%) can be considered a positive trend.

The improvement in the money supply and decrease in interest rates on deposits resulted in an increase in the amount of credits in the economy. Thus, the volume of credits increased by 47.4% and amounted to 4941 bln. AZM in 2004.

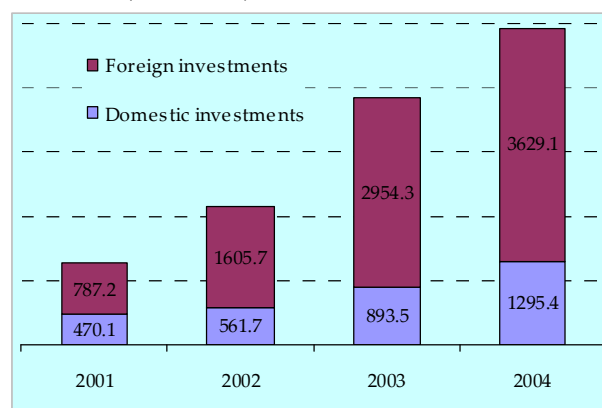
At the same time, a number of positive trends were observed within the reported period:

- (i) While short-term credits increased by 43.7% (in 2003 – by 11%), long-term credits increased 57.4% (in 2003 – 3.2 times) and the share of long-term credits in the structure of credits increased to 29.2%;
- (ii) While credits to the public sector increased by 25.8%, credits to the private sector increased by 54.3% and the share of the private sector in providing credits has also increased and reached 79.4%;
- (iii) The amount of credits in AZM increased by 57 %, in foreign currency by 42.5%; and the share of credits in AZM in total credits increased at the end of the period and was 36.1%.

■ Structural change and development of non-oil sector

Certain structural changes have taken place in GDP structure, including an increase in the share of the non-oil sector. Thus, while 63% of GDP came from the production sectors (including construction), 30% from service sectors, 7% from net taxes on goods and imports in 2003; in 2004 these indicators were 62.5%, 30.2% and 7.3%

Figure 2.4. Volume and Ratio of the Foreign and Domestic Investments made in the Economy (mln. USD)



Source: SSC

Table 2.3. Sectoral Structure of Investments (%)

	2004
Industry	80.3
<i>of which:</i>	
oil and gas production	76.4
processing industry	3.0
electricity and water supply sectors	1.2
Agriculture	0.7
Construction	0.2
Trade and services	1.1
Transport	6.4
Communication	2.1
Construction of dwellings	6.2
Other sectors	3.0
Total	100.0

Source: SSC

respectively. The share of the non-oil sector in GDP increased from 71% in 2003 to 71.7% in 2004.

The share of GDP of industry, construction, hotels, restaurants, social and informal service sectors, and net taxes on goods and imports increased in 2004, while the share of agriculture, transport and communication, repair services of the household appliances and personal belongings decreased (Figure 2.5).

Development of privatization and entrepreneurship resulted in further increases in the non-state sector share of GDP, and the share of this sector in different branches of economy. In 2004 the share of the non-state sector in GDP reached 73.5% (in 2003 – 73.3%). Table 2.4 provides more detail on the share of non-state sector in the economy.

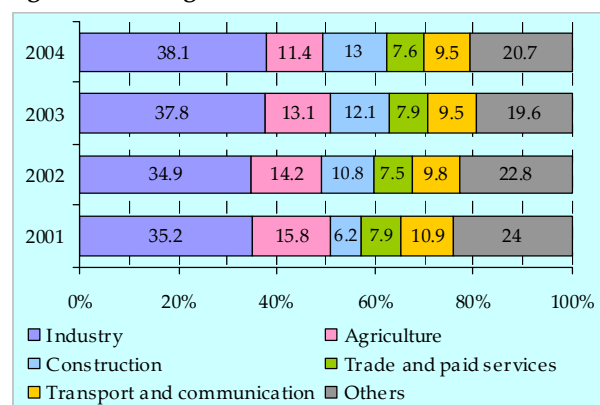
Oil production increased by 1.1% in 2004 and reached 15545.2 thsd. tons (in 2003 – 15376.1 thsd. tons). The growth rate of the non-oil sector of industry was higher than that in the oil sector. However, in line with the work related to the large-scale international oil contracts which have been concluded since 1994, rapid growth of oil production is expected in the near future. That is why the main task at the moment is to prepare the economy for the large oil revenues and create effective expenditure mechanisms, taking into consideration the importance of these revenues for the development of non-oil sector.

In this connection, the SOFAR was established to use the oil revenues for the development of the non-oil sector of the economy and maintain these revenues for future generations. There has been an increase in the funds of SOFAR, coupled with the adoption of a long-term strategy for effective use of its funds. In 2004, SOFAR funds increased by 19.1% in comparison with 2003 (815 mln. USD) and amounted to USD 970.5 mln. SOFAR funds were used for the following measures in 2004:

- 75 bln. AZM – for financing measures related to the resettlement of the refugee and IDP families expelled from their native lands as a result of the ethnic clean-up and aggression policy of Armenia and improvement of their social conditions;
- 89 bln. AZM – for financing the share of the Republic of Azerbaijan in BTC main export pipeline project named after Heydar Aliyev;
- 650 bln. AZM for transfers to the state budget;
- The management costs of the Fund were 3.6 bln. AZM, the costs arising from re-evaluation of foreign currency assets were 13.2 bln. AZM;
- 39.8 bln. AZM were transferred to the state budget from the revenues of the Fund in the form of profit tax and 0.6 bln. AZM in other miscellaneous taxes.

The real growth rate in agriculture was 4.6% in 2004 (5.6% in 2003). 60% of agricultural produce were crop products and 40% - livestock products.

Figure 2.5. Changes in the structure of GDP (%)



Source: SSC

Table 2.4. The share of non-state sector in the economy (%)

	2003	2004
Industry	53.4	57.0
Agriculture	99.7	99.7
Construction	88.7	91.2
Cargo transportation	56.3	57.8
Passenger transportation	84.6	84.7
Communication	68.9	71.3
Trade	98.7	98.7
Paid services	71.2	72.6

Source: SSC

As in previous years, the construction sector showed dynamic growth in 2004. This process was further strengthened by the construction of the BTC main oil and Baku-Tbilisi-Arzurum gas pipelines. Thus, if the amount of investment in fixed capital was 17.8 trln. AZM in 2003, in 2004 this indicator was 24.2 trln. AZM.

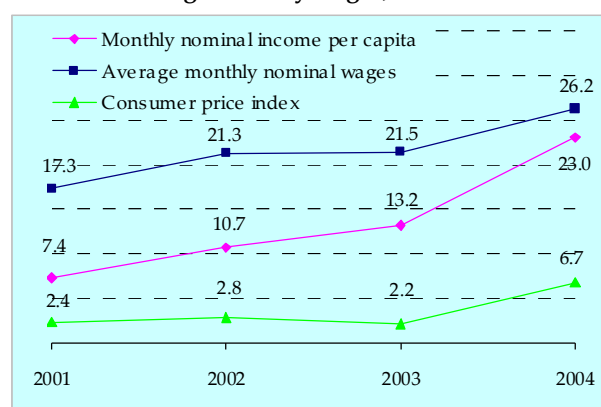
■ The money income of the population

Nominal money income increased by 20.7% in 2004 and amounted to 30047.4 bln. AZM. Money income per capita increased by 19.6% in comparison with the previous year and was 3670.4 thsd. AZM; the monthly figure averaged 305.9 thsd. AZM. Average monthly wages increased by 26.2% and was 483.4 thsd. AZM (Figure 2.6).

■ Foreign trade

Foreign trade also expanded within the considered period of time. According to SSC figures, foreign trade turnover increased from USD 5218.2 mln. in 2003 to USD 7118.6 mln. in 2004. In other words, the volume of foreign trade turnover increased by 36.4% in 2004 in comparison with the previous year. The balance of trade was positive in 2004 and amounted to USD 110 mln. (Table 2.5).

Figure 2.6. Growth rates for per capita money income, average monthly wages, and inflation (%)



Source: SSC

Table 2.5. Foreign Trade Indicators

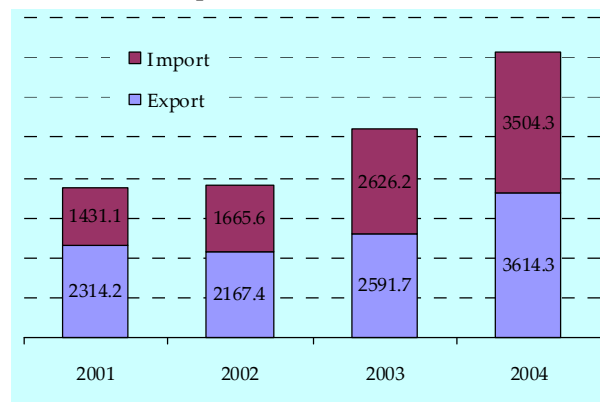
	2003				2004			
	mln. USD	Growth rate	Share		mln. USD	Growth rate	Share	
Total turnover	5218.2	136.1	100	100	7118.6	136.4	100	100
EU countries	2542.5	136.9	48.7		3020.0	115.6	42.4	
CIS countries	1184.6	132.5	22.7		1814.8	153.2	25.5	
Other countries	1491.1	137.8	28.6		2283.8	160.8	32.1	
Exports	2592.0	119.6	49.7	100	3614.3	139.5	50.8	100
EU countries	1701.5	116.3	65.6		1840.1	105.4	50.9	
CIS countries	333.9	137.0	12.9		614.3	184.1	17.0	
Other countries	556.6	120.9	21.5		1159.9	226.3	32.1	
Imports	2626.2	157.7	50.3	100	3504.3	133.4	49.2	100
EU countries	841.0	213.7	32.0		1179.9	136.1	33.6	
CIS countries	850.7	130.8	32.4		1200.5	141.1	34.2	
Other countries	934.5	135.2	35.6		1123.9	123.8	32.1	
Balance	-34.2				+ 110			
EU countries	+860.5				+ 660.2			
CIS countries	-516.8				-586.2			
Other countries	-377.9				+36.0			

Source: SSC

Foreign trade relations covered 119 countries (in 2003 – 124) in 2004, 10 of which were CIS countries. A total of 25.5% of foreign trade was with CIS countries (in 2003 – 22.7%), 42.4% (48.7%) – with the EU, 32.1% (28.6%) – with other countries. A total of 17% of exports (12.9% in 2003) went to CIS countries, 50.9% (65.6%) – to the EU, and 32.1% (21.5%) – other countries. With regard to imports, 34.2% (32.4%) came from CIS countries, 33.7% (32%) – from the EU, and 32.1% (35.6%) – from other countries.

As in previous years, mineral products still prevail in the export structure. Export of mineral products decreased by 3.5% in comparison with 2003 and was 82.3% in 2004⁶.

Figure 2.7. Change in the volume and share of imports and exports (mln. USD)



Source: SSC

The above results show that the process of integration of the country economy into the world economy was intensified in 2004. At the same time, it should be noted that there is a need to expand and strengthen policy measures aimed at increasing the efficiency of this process and increasing the competitiveness of the national economy, especially those aimed at diversification of exports and rationalization of the structure of imports.

Overall there was a general improvement in the economic situation in 2004 as a result of implemented policy measures. However, there is a need for further improving the coordination between the executive agencies responsible for preparing and implementing macroeconomic policy. This will help to build on the achievements obtained and to improve the regulation of economic processes and especially regulation of the inflation process in the period of increasing use of the oil revenues.

Poverty: the results for 2003

■ Background

Official measurement of poverty in Azerbaijan began in 2001 during the SPPRED formulation phase. As in the formulation stage, efforts have been made to estimate poverty levels in the country and to evaluate the impact of policy measures on poverty reduction. The policy monitoring matrix included in SPPRED envisages regular monitoring of poverty levels in the country and the publishing of poverty results on an annual basis.

Given that Azerbaijan is country in the phase of transition from a planned to market economy, it was decided that an “absolute poverty line” was the most suitable type of poverty line for the country. This poverty line is estimated as the cost of a minimum consumption basket, calculated on the basis of per capita monthly minimum consumption norms. A “relative poverty line”, is also used for monitoring purposes. This line is estimated as a percentage (60.0% in 2001, 70.0% in 2002) of median of consumption expenditure. The median is derived on an annual basis from the HBS, which has been carried out by the SSC from 2001 onwards.

As reported in the 2003 implementation report, it was decided to take 2002 estimates as the baseline for monitoring changes in poverty levels in 2003. This is due to the fact that there were certain improvements made in the HBS methodology and for calculating the value of the “absolute poverty line” in 2002 (see: SPPRED, Annual Report-2003, pages 16-17). Taking into account these changes, the 2002 poverty estimates based on the country’s “absolute” and “relative” poverty lines were 175000 AZM and 125134 AZM respectively. Estimates based on 2002

⁶ The main imports were: plant products; food products, alcohol and non-alcoholic drinks; tobacco; mineral products; chemical industry products; plastic mass, caoutchouc, rubber, and products made from them; metals of low value and the manufactured products made from them; machinery and mechanisms; electrical equipment; means of transport for land, air and water transport.

HBS data showed that 46.7% of the population lived in poverty using “absolute poverty line” and 8.8% using “relative poverty line” (see, SPPRED, Annual Report-2003, page 17).

Since the share of the population living below the “absolute poverty line” is high, and since poverty results based on the “relative poverty line” are not suitable for monitoring changes in absolute poverty over time, it has been decided to introduce another absolute poverty line for monitoring extreme poverty. Various options were considered for determining this poverty line: a certain percentage (e.g., 70%), or the share of food expenditure, in the consumption budget of the poorest income deciles based on the HBS); or the cost of the food basket in the minimum consumption basket; or a percentage of the absolute poverty line. The final methodology chosen for setting the new extreme poverty line is described below.

It is also important to draw a poverty profile for the country (to identify the share of the poor population by place of residence; regions; gender and age group, size and structure of households; education level and sex of the head of household and other individual and household characteristics); and to look at the depth of poverty (to identify how far below the poverty line the poor are), as well as the level of inequality by income or expenditure distribution among the population, in order to get a more comprehensive understanding of poverty and its dimensions in the country.

■ *Poverty line*

The “absolute poverty line” set for 2002 (175000 AZM) was taken as the basis for 2003 (see, SPPRED, Annual Report-2003, page 17) and adjusted for inflation, using the consumer price index (102.2%). Thus, the value of minimum consumption basket for the “absolute poverty line” in 2003 is estimated at 178850 AZM. The minimum consumption basket is based on the value of three sub-minimum baskets, namely that for food products, non-food products and services. The value of the food basket in 2003 is 124137 AZM, representing 69.4% of the total value of the minimum consumption basket; the value of the non-food basket is 22418 AZM with a 12.5% share in the minimum consumption basket and the value of the basket for services is 32295 AZM with a 18.1% share.

The value of “relative poverty line” for 2003 is calculated at 129684 AZM (70% of median consumption expenditure as in 2002).

As it was mentioned above, it was considered useful to introduce an “extreme poverty line” as a certain percentage of the value of absolute poverty line or as the value of the minimum food basket in order to identify the poorest groups of population. An “extreme poverty line” estimated as the value of the minimum food basket was used for the 2003 estimates of extreme poverty. The value of the “extreme poverty line” is 124137 AZM for 2003.

■ *Poverty estimates for 2003*

As in SPPRED, the absolute poverty line is used to derive the overall poverty level in the country. The poverty results for 2003 are based on 2003 HBS results and the absolute poverty line is calculated at 178850 AZM. Using this poverty line, the overall poverty level is estimated at 44.7% (38% for households) for 2003. Using the relative poverty line (129684 AZM), the relative poverty level for 2003 is estimated at 12.0% (9.5% for households). Using the extreme poverty line (124137 AZM) for 2003, it is estimated that 9.6% of the population (7.5% for households) are living in extreme poverty.

Using preliminary 2004 HBS results and the absolute poverty line (195000 AZM per capita per month), the overall poverty level is 40.2%. The details of poverty profile for 2004 will be provided in the next report.

■ *Poverty profile*

As in previous years, the poverty profile for 2003 was drawn for individuals (Table 2.6) and households (Table 2.7) separately.

The conclusions regarding the poverty results for individuals (Table 2.6) can be summarized as follows:

- Overall the poverty level (44.7%) decreased 2% in 2003 compared to 2002 (46.7%);
- In 2003, the poverty level in urban areas decreased by 3.7% and 0.1% in rural areas. This suggests that the poverty level was slightly lower in urban than in rural areas, whereas in previous years it had been slightly higher (44.1% in urban areas and 45.3% in rural areas in 2002);
- Analysis of regional differences in poverty levels shows that the highest poverty level (59.2%) is found in Nakhchivan AR (decreased 3.7% compared to 2002), while the lowest level (35.4%) is found in Baku (decreased 4.6% compared to 2002). However, approximately one quarter of the poor

(24.7%) live in Baku and it therefore has a significant poverty problem compared to other regions. According to the 2003 results, Mughan-Salyan (52.9%) and Shirvan (51.6%) are the regions with relatively higher levels of poverty, while Shaki-Zagatala (40.3%) has relatively lower level. Garabagh-Mil (44.2%) and Absheron-Guba (45.7%) are the regions where the poverty level is closer to the national average;

- Poverty analysis by gender shows that a 2.0% decrease in overall poverty level in the country is roughly accompanied by the same rate of decrease by gender. As in 2002, poverty level among men (44.4%) was slightly lower than among women (44.9) in 2003;
- Poverty analysis by age groups shows that the overall 2% decrease in poverty is observed across all age groups, and the ranking of age groups by poverty level is the same as in 2002. The highest poverty level was in the 0-15 year age group (50.7%), whereas the lowest level was in the 50-59 age group (37.1%) and the level closer to the average level was for the 16-29 age group (43.8%). This again points to the vulnerability of children (and large families, see below). A higher than average level of poverty (46.1%) for the 30-39 age group is also a matter for concern, since this group is considered as the most active group of the able-bodied population.

The main results for poverty profile evaluation of households in the country (Table 2.7) can be summarized as follows:

- The poverty risk increases the greater the household size (number of household members). Thus, the poverty risk among households with fewer than 3 members is relatively lower (38%; 1 person – 5.4%, 2 persons – 13.6%, 3 persons – 21.4%); while among households with 4 members (36.6%) it is closer to the average level. However, the poverty risk increases dramatically once the number of members reaches 5 or more persons – 45.8%, 6 or more persons – 57%).

Table 2.6. Poverty Incidence by Categories of the Population (individuals)

Categories of the population	Poverty levels (%)		
	Absolute poverty line	Relative poverty line	Extreme poverty line
	178850 AZM	129684 AZM	124137 AZM
Total population	44.7	12.0	9.6
Urban	44.1	13.5	11.2
Rural	45.3	10.3	7.9
Nakhchivan AR	59.2	21.2	16.9
Absheron-Guba	45.7	15.2	13.9
Mughan-Salyan	52.9	10.7	8.2
Ganja-Gazakh	49.1	13.9	10.8
Shaki-Zagatala	40.3	11.5	7.8
Lankaran-Astara	42.3	7.4	5.4
Shirvan	51.6	14.6	12.9
Garabagh-Mil	44.2	11.3	9.1
Baku	35.4	9.0	6.8
Male	44.4	11.6	9.4
Female	44.9	12.4	9.9
0-15 years old	50.7	14.5	11.7
16-29 years old	43.8	11.0	8.9
30-39 years old	46.1	12.3	9.8
40-49 years old	41.0	10.5	8.0
50-59 years old	37.1	10.0	8.3
60 and more years old	40.3	11.1	9.3

Source: HBS 2003

- The poverty level is less than the average level among households without children or with 1 child. There is a much higher poverty risk for households with 3, 4 or more children. The poverty level for households without children is much less than the average for households (38%), but only 1 child in a family increases the share of poor families by 16.6%. Poverty incidence is 32.2% for households with 3 children and 39.5% for households with 4 or more children.

- The 2003 results again support the hypothesis that “the higher the education level of the head of the household the lower the poverty level”: the poverty level for households where the head of household has higher education is 28.6%; 38.3% for those with secondary education; 45% for those with lower than secondary education. The poverty level was much lower (9.4% less than the average of 38%) for those households, where the head of household has higher education;

- Analysis made by the age of the head of household shows that the ranking of groups by poverty level was the same as in 2002.

The poverty level for households where the head of household is in the 30-39 and 40-49 years age groups is higher than the average (38%) level (42% and 39.6% respectively), while it is lower for households where the head of household is in the 18-29, 50-59 and 60+ age groups (26.9%, 34.8% and 37.1% respectively). The higher than average poverty level in households where the head is in the 30-39 and 40-49 age groups should be considered as a matter of concern, since these age groups are considered as the most active groups of able-bodied population. For this reason policy measures should focus on providing productive employment opportunities for heads of households (and other adults) in these age groups;

- The difference in the poverty risk for households with a male or female head is considerable: the poverty level of households with a male head is 40.3%, while it is 28.5% for households headed by a female. The fact that female-headed households have a lower poverty risk goes against conventional wisdom, whereby single mothers or pensioners are considered more vulnerable. Further investigation of the data has shed some light on the reasons for this result: there is a modest share - 19.4% of all households - of female-headed households in the HBS sample; and the size of female-headed households in the HBS sample (70% of female-headed households consist of not more than 3 members and the overall poverty

Table 2.7. Poverty Incidence by Household Categories

Households	Poverty levels (%)		
	Absolute	Relative	Extreme
	poverty line 178850 AZM	poverty line 129684 AZM	poverty line 124137 AZM
Size of household:			
Single person households	5.4	0.4	0.3
Households with 2 members	13.6	1.5	1.1
Households with 3 members	21.4	2.5	1.4
Households with 4 members	36.6	6.8	5.4
Households with 5 members	45.8	11.5	8.7
Households with 6 + members	57.0	18.2	15.0
Number of children in households:			
Households without children	23.2	4.2	3.2
Households with children	47.4	12.8	10.3
Households with 1 child	39.8	8.5	6.6
Households with 2 children	46.9	12.6	10.3
Households with 3 children	55.4	19.2	15.1
Households with 4+ children	62.7	16.4	13.3
Head of household has:			
Higher education	28.6	5.3	4.3
Secondary education	38.3	10.1	7.8
Less than secondary education	45.0	11.5	9.6
Head of household is:			
18-29 years old	26.9	5.8	5.1
30-39 years old	42.0	9.9	7.8
40-49 years old	39.6	9.5	7.0
50-59 years old	34.8	9.3	7.6
60 and more years old	37.1	9.8	8.1
Head of household is:			
Male	40.3	10.2	8.1
Female	28.5	6.7	5.2
Total for households	38.0	9.5	7.5

Source: HBS 2003

level for households with 3 members is 21.4%) is relatively small. This again confirms that household size is a significant factor influencing poverty risk.

■ *Poverty gap*

For policy purposes, it is important to identify not just the numbers living below the poverty line, but also the depth of poverty, i.e. how far below the poverty line the poor are. The poverty gap for the absolute poverty line for 2003 is 0.088 in 2003. In other words, the average consumption expenditure of the poor population is 8.8% less than poverty line. This shows that even if the overall poverty level is relatively high (44.7%) the poverty gap is relatively small. The much lower level of extreme poverty (9.6%) is due to the fact that many of the poor are living close to the national poverty line.

■ *Inequality*

The Gini coefficient is the most common measurement of inequality, based on distribution of income or expenditure levels. Calculations using this formula show that the Gini coefficient was equal to 0.275 using income distribution and 0.288 using consumption expenditure in 2003 (calculated on the basis of HBS results).

We also look at the average income and consumption expenditure ratio (respectively) by the richest, medium and the poorest deciles (DI₁₀, DI₅, DI₁ and DC₁₀, DC₅, DC₁) and also the share of income (IQ₁) and consumption expenditure (CQ₁) of the poorest quintile in the total income (I) and consumption expenditure (C).

The results for the distribution of income and consumption expenditure among the groups of population (Table 2.8 and Table 2.9) can be summarized as follows:

- The average income by the richest and medium deciles (quintile) were 3.93 and 1.84 (2.88 and 1.53) times higher than the income of the poorest decile (quintile);
- The average consumption expenditure by the richest and average deciles (quintile) are respectively 3.37 and 1.66 (2.58 and 1.53) times more than the poorest decile (quintile);

Table 2.8. Average income and consumption expenditure by deciles and quintiles of income and consumption expenditure (AZM)

By deciles			By quintiles		
Nº	Average income	Average consumption expenditure	Nº	Average income	Average consumption expenditure
D ₁	90469.8	107721.2	Q ₁	105635.8	121545.4
D ₂	120808.2	135356.5			
D ₃	138109.2	151216.0	Q ₂	145329.1	158065.0
D ₄	152526.4	164913.5			
D ₅	166404.7	179021.5	Q ₃	173967.7	186430.0
D ₆	181544.7	193835.2			
D ₇	199526.4	211001.6	Q ₄	210307.5	221677.8
D ₈	221116.4	232330.2			
D ₉	252483.6	263070.3	Q ₅	304023.0	313011.8
D ₁₀	355729.2	362965.9			

Source: HBS 2003

- Share of the poorest and richest quintile in overall income (consumption expenditure) is 11.2% and 32.4% (12.2% and 31.3%) respectively. It shows that the income (consumption expenditure) of the richest quintile is 2.9 (2.6) times more than the poorest quintile;

- The average consumption expenditure was higher than average incomes for all the deciles and quintiles. This suggests that there is under-reporting of income in the HBS. This is to be expected, and is common to most income and expenditure surveys; and it is also the main reason for using consumption expenditure as the main welfare indicator for ranking households according to their living standards. However, even using consumption expenditure, the results regarding inequality suggest a relatively low level of inequality, implying that the HBS may have under-reporting of expenditure as well, especially among the higher deciles; or that the HBS is not capturing the top deciles in its sample.

The results suggest that it is still difficult to get an accurate estimate of inequality in the country. There is a need to expand and deepen the data and analytical base in order to get more accurate results, which can be used for policy making purposes. It is important to ensure that all incomes and expenditures of the population, including income from the informal sector and self-employment are recorded through further improvement of the HBS. It will also be important to look at alternative methods for calculating income levels of all strata of the population, especially those of the higher deciles (quintiles).

Table 2.9. Share of the population's income and consumption expenditure in overall income and consumption expenditure by quintiles (%)

Quintiles	By income	By consumption expenditure
Q ₁	11.2	12.2
Q ₂	15.5	15.8
Q ₃	18.5	18.6
Q ₄	22.4	22.1
Q ₅	32.4	31.3

Source: HBS 2003

Employment and Wages

■ Background

In Azerbaijan as elsewhere, economic growth is a prerequisite for poverty reduction; however, in the current situation, in order to contribute to poverty reduction, economic growth must also be employment-intensive, leading to higher labour productivity and rising incomes.

Official statistics for 2003 suggest that there was a 0.6% increase (or 20500 people) in the annual average number of the employed population, and a 22.1% increase in average monthly real wages in the economy⁷. The latter increased by 20.9% in 2004.

However, estimates based on the 2003 LFS suggest that the country's labour force participation rate was 62.9%, and that the unemployment rate was 10.7%. The HBS also indicates that a large share of the poor population are actually employed, i.e. that there is a large group of "working poor".

This section looks at unemployment, wage levels and sectoral employment and tries to look at the links between employment and poverty levels.

■ Employment

According to official statistics, the annual average increase in the employed population was 0.6% (3726.5 - 3747 thsd. persons) in the period 2002 to 2003. During this period a positive change was observed in private and public sector employment, with a 1.3% increase in private sector employment (2534.5 - 2567 thsd. persons) versus a 1% decrease in public sector employment (1192 - 1180 thsd.). In addition, looking at the employment data by economic sectors we can observe the highest increase in the number of employed in construction (1.1%) followed by an increase of 0.2% in the industrial sector, 0.2% in the agricultural sector, and 0.9% in the service sector. While

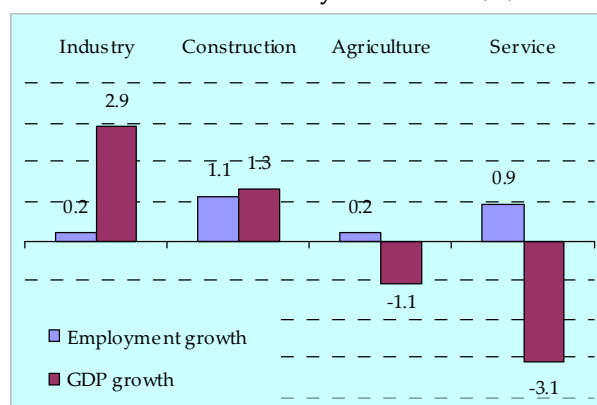
⁷ Since LFS data are only available for 2003, economic data for 2003 are also used in this chapter. The average monthly wage was 361074.6 AZM in January and 415836.5 AZM in December of 2003.

the annual average number of people in hired wage employment increased by 2.1% (1201.5 – 1226.6 thsd. persons), self employment decreased by 0.2% (2525 – 2520.4 thsd. persons). It is important to note that the increase in private sector employment was observed only in the service sector by 5.1% (908.5 – 955.1 thsd. persons). There was a parallel decrease of 3.3% (178.9- 173 thsd. persons) in the industrial sector, 0.9% (43.6 – 43.2 thsd. persons) in the agricultural sector and 21.6% (70.5 – 55.3 thsd. persons) in the construction sector.⁸

Thus, the number of people engaged in private sector employment increased, as a result of a reduction in public sector employment and increase of hired labour in the service sector.

Interestingly, with regard to the sectoral GDP growth the pattern appears to be the opposite, implying that the fall in agricultural and service sectors' output are due to an increase in unproductive employment (or underemployment) in these sectors. As for industry and construction, both output and employment increased in the period of 2002-2003, but this may be due to increasing activities in the informal service sector⁹.

Figure 2.8. Growth rates for GDP and employment by sectors of economy in 2002-2003 (%)



Source: SSC, 2003

As the employment to population rate has a potentially significant impact on the poverty reduction process, it would be very interesting to see its correlations with poverty indicators. According to the LFS survey, which gives more realistic estimates than administrative data, the employment to population rate was 56.2%, the indicator was 50.5% for urban and 63.5% for rural areas. In contrast to these results, the HBS suggests a higher poverty rate for rural (45.3%) compared to urban (44.1%) areas. Moreover, estimates based on the HBS 2003 suggest that 40.8% of those who are employed¹⁰ are living below the poverty line (38.9% in urban and 42.8% in rural areas). These estimates point to the large number of “working poor” in the country.

Furthermore, the HBS suggests that as the number of household members increases, poverty incidence also increases. This is partly linked to the number of children in households. However, 23.1% of households without children are also living below the poverty line. Therefore it seems that adult members on low wages are also contributing to low household living standards.

■ Unemployment

Official statistics from 2003 suggest that there were 54365 persons (1.43% of the labour force) officially registered as unemployed at the state employment offices of which 5.7% (or 3111 persons) are entitled to unemployment benefits and 61% (or 29983 persons) of those who applied for jobs at the state employment offices were provided with a job. In contrast, the results of the LFS from 2003 show that only 6.3% of total unemployed people with some work experience applied to the state employment agencies for a job, implying that the official unemployment rate underestimates the problem.

According to the results of the LFS survey, the unemployment rate was 10.7% in 2003. The total number of unemployed people includes 34.8% of unemployed people with some work experience (38.1% in urban and 27.5% in rural areas) and 65.2% without work experience (61.9% urban – 72.5% rural areas). If we take the unemployment rate for the 15-34 year age groups, we can assume that the majority (69%) of unemployed without

⁸ Labour market bulletin SSC, 2004.

⁹ See the Figure.

¹⁰ Includes those respondents who indicated that he/she was employed or have a job place.

work experience comes from this age group. This suggests that unemployment is especially high among young people entering the labour market for the first time.

Furthermore, estimates based on the LFS show that 79.1% of unemployed people with work experience were unemployed for more than 12 months. Long term unemployment is especially high in urban areas (82.2%), compared to rural areas (69.2%). Considering the small number of unemployed people who receive unemployment benefits, as well as the small size of the benefit (60000 AZM, while the country's poverty line in 2003 was 178850 AZM), it can be presumed that both first-time labour market entrants and the long-term unemployed create an additional dependence burden on working people in households, and thus contribute to the number of working poor.

Unemployment in Azerbaijan is mainly concentrated in urban areas (14%) compared to rural (7%) areas, although the poverty incidence was slightly higher in rural (45.3%) than in urban areas (44.1%) in 2003. This may point to higher levels of underemployment in rural areas. There is also inconsistency in unemployment and poverty rates for household-heads in the age groups of 20-29 and 30-39 years olds: 19.5% and 7.6% unemployment rates against poverty rates of 26.9% and 42%¹¹. This can be explained by the fact that the number of children per household in rural areas is higher than in urban areas and the number of dependents is especially high for the age group 30-39 than 20-29.

While unemployment has a direct correlation with the poverty, these figures alone are rarely sufficient in explaining the prevalence of poverty, as a substantial share of the employed population is also poor, because of high dependency rates and the low-income, low-productivity work they are engaged in.

■ *Wages and salaries*

Given the problems with the first-time job seekers and long term unemployment as well as the high share of "working poor", real wage trends are important to monitor in order to understand the factors influencing poverty among employed people. On the other hand it should be kept in mind that average real wages do not provide a complete description of real incomes, as workers generally have more than one job and often receive supplementary in-kind income and services such as housing and child care facilities.

Average monthly wages increased by 21.1% in real terms (using the consumer price index; 308617 AZM vs. 373835 AZM) (In USD – 20.1%: 64.9 USD vs. 78 USD) from 2002 to 2003¹². The highest increase in real wages was observed in the agricultural sector, where they increased by 28%, or from 87900 AZM to 113200 AZM. However, this did not have any significant effect on poverty reduction in rural areas as wage levels in this sector are considerably lower than in the industrial sector. Real wages in the industrial sector increased only by 3.1% (555.6 – 572.9 thsd. AZM) but include the higher increases in manufacturing sector 27.4% (341.3 – 434.8 thsd.) and mining sector 12.5% (1262.7 – 1420.7 thsd.) (note: mining sector includes the oil sector).

In addition, according to the HBS of 2003, earnings from hired (wage) employment accounts for 31.2% of disposable income, 41.3% in urban areas and 17.8% in rural areas. Income from agriculture and self employment, accounts for 42.6% of household total disposable income, 36.1% in urban areas and 51.2% in rural areas. These figures, together with the above-mentioned increase in real wages in the manufacturing and mining sectors, may have contributed to the reduction of poverty in urban areas.

The minimum wage almost doubled (45000 AZM) in September 2003 and continued to rise to 60000 AZM in January 1, 2004, 100000 AZM in July 2004 and was equal to the value of the extreme poverty line – 125000 AZM in January 2005.

¹¹ HBS, 2003.

¹² The increase was 20.9% in AZM and 26.2 in USD in 2004.

It is important to note that the HBS data shows that on the individual level 29.2% of respondents of working age indicated as their main source of income “dependence on working members of the household”. The figure is especially high in urban 35.3% compared to rural areas 20.6%.

Generally, the employment status/characteristics can influence poverty in different ways: *i) underemployment* and *ii) low returns to labour*¹³.

Those who suffer from *underemployment* can be of two types:

- The *open underemployed* - those who work less than full time and hence cannot earn enough to rise above the poverty line.
- The *disguised underemployed* – those who apparently work full time but at low intensity.

Those who suffer from *low returns to labour* despite working full-time and at high intensity can be classified into three categories depending on the causes of low returns.

- The *surplus labour* syndrome - those who work for very low wages because they have to compete with potential entrants having very low reservation wages.
- The *low productivity* syndrome - those who work with poor skill, or poor technology, or inadequate complementary factors.
- The *adverse terms of trade* syndrome - those who suffer from adverse terms of trade, either because of low product prices, or high input cost (including high cost of credit), or both.

Initial analysis of the available data suggests most of these factors are relevant to the situation in Azerbaijan. But more work is required to determine the relative weight of each factor in contributing to the employment/poverty link in Azerbaijan.

Social Protection

■ Background

Benefits provided under social protection systems can usually be divided into two types, namely those based on principles of social insurance, which draw on contributions made through national social insurance systems; and those based on the principles of social assistance, which are paid directly from the state budget. In Azerbaijan, as in the other countries which inherited the Soviet system of social protection, the two types remain intertwined. A Presidential Decree on separating the systems of social insurance and social assistance from each other was signed on August 2003, and progress is being made in reforming them. However, at present these two systems continue to overlap.

■ The Social Protection Budget

Incomes and expenditures of the SSPF budget increased by 9% from 2003 and amounted to 1970.7 bln. AZM in 2004¹⁴. 65.2% of the budget came from social insurance contributions and 34.8% from the State Budget. 57.9% of total payments to the population went to pensions and 42.1% to social assistance (4.1% to social pensions and 38% to benefits).

■ Pensions

¹³ from S.R. Osmani “Exploring the employment nexus: topics in employment and poverty” (A report prepared for the task force on the Joint ILO-UNDP Programme on Employment and Poverty) June 2003, UNDP NewYork and ILO, Geneva.

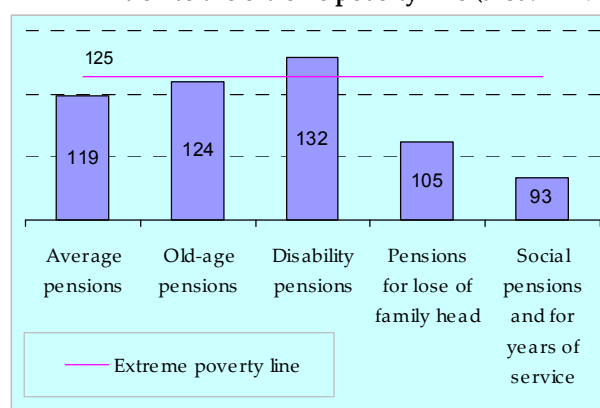
¹⁴ Source: http://www.ssp.gov.az/budce_2004.htm.

The average size of pensions paid on the basis of social insurance contributions, was 119.1 thsd. AZM in 2003. By comparison, it was 88.5 thsd. AZM in 2002, representing a rise of 34.5% in nominal terms (35.4% in real terms; the official consumer price index decreased from 102.8 in 2002 to 102.2 in 2003). The increase was 54.8% for old-age pensions, 75.4% for disability pensions, 42.4% for pensions given for loss of head of family and 39.7% for social pensions and for years of service.

The increase in pensions in 2003 led to reduction in the gap between average pensions, average per capita income and average wages. Thus, according to regular administrative data, average nominal pensions amounted to 31% of average nominal wages and 48% of average per capita nominal income in 2003, while the figures were 40% and 28% in 2002.

Despite these increases, the average monthly pension is still below the country's absolute poverty line. The amount of average nominal pension represented 67% of the poverty line in 2003, compared to 51% in 2002. Pensions for old-age, disability, loss of family head and for social service years represented 69%, 74%, 59% and 52% of the poverty line respectively. Pensions amounts were even below the extreme poverty line, except for disability pensions (see: Figure 2.9). According to the 2003 HBS data, poverty incidence was 40.2% among old-age pensioners, 44.4% among pensioners receiving disability pensions, 43.4% among social pensioners and 48.4% among those receiving pensions for loss of family head.

Figure 2.9. Pension size by category of pension in relation to the extreme poverty line (thsd. AZM)



Source: SSC

Thus those receiving pensions have to have other sources of income for ensuring at least minimum living standards. If pensioners live in households with more than 1 member, they may also benefit from the redistribution of resources within the household, and thus escape poverty. But the risk of poverty is higher among people with pensions as the main or only source of income in the household. According to the 2003 HBS, poverty incidence is 41.8% among people with pensions as the main source of income (the figure is higher in urban than rural areas: 42.7% versus 40.9%) versus 38.8% among people with pensions as an additional source of income (40.6% in urban and 35.7% in rural areas). The figures were 44% (47% urban and 40.5% rural areas) and 42.4% (44.7% urban and 40.3% rural areas) in 2002 respectively. The difference in the incidence of poverty among people receiving pensions in urban and rural areas suggests that they are less vulnerable to poverty in rural areas, which may be due to the larger household sizes in rural areas (pension is a supplement to household income, rather than the only source), or to the fact that access to land is still important in protecting from poverty.

■ Social assistance

As was shown in SPPRED/MDG Report 2003, there are more than 35 types of benefits and compensations in Azerbaijan Republic and the system covers broad section of the population. Only one benefit is "targeted", namely the benefit for children under 16 years of age (and for full-time students not receiving scholarship – up to 18 years) provided to families with a per capita income level below 16500 AZM. The size of the monthly benefit is 9000 AZM. While the minimum wage and average per capita incomes have increased several times in recent times, neither the size of the benefit nor the basis for determining eligibility have changed. The MLSP is working with the EU and WB in order to design and implement a targeting mechanism, which would allow a larger benefit to be paid to a more restricted number of recipients. However, in the meantime, the benefit represents the biggest item in the social assistance budget, and due to its small size, can only have a very limited effect in providing protection from poverty. For comparison, the poverty line was 178850 AZM and the minimum wage 100000 AZM in 2003.

■ Targeting of social benefits

According to the 2003 HBS data, the main source of household per capita income in all expenditure deciles was income from employment (as in previous years). Social insurance and social assistance payments (the sum of pensions, state benefits and privileges) represented 10.6% of household per capita income in the first (lowest) decile and 6% in the richest one.

Table 2.10. Structure of population's income by deciles of consumption expenditure (%)

	1	2	3	4	5	6	7	8	9	10
Wages and salaries	22.9	21.4	19.8	20.3	18.6	20.4	21.0	19.7	19.3	21.8
Income from self-employment	15.9	15.4	15.0	16.5	15.4	14.9	15.9	15.2	14.4	15.4
Net income from agriculture	8.0	9.8	10.9	12.0	11.3	11.6	11.2	11.9	10.6	7.9
Income from renting of property	17.5	19.9	17.0	19.1	20.3	17.0	19.1	16.5	19.1	19.3
Income from dividends, interests and securities	14.8	14.1	16.5	11.7	14.4	16.0	13.2	16.0	17.9	17.0
Social benefits	10.6	8.5	8.9	8.4	8.4	8.0	7.7	7.8	6.5	6.0
Other income	10.3	10.8	11.7	11.9	11.7	12.1	11.8	12.9	12.2	12.7

Source: HBS 2003

Table 2.11 shows that state benefits are more or less targeted on low-income population. However, this is not true for privileges¹⁵, which do not appear to be well-targeted (6.9% of those in the lowest decile are entitled to privileges, compared to 13.8% in the top decile). This is due to the fact that they are allocated to categories of the population generally considered vulnerable (IDPs, war veterans, invalids etc), rather than being specifically targeted on the low income groups.

■ *Children in Institutions*

Although measures aimed at de-institutionalization are envisaged under SPPRED, and efforts to support this are being made by UNICEF and EUFS, there has as yet been little change in number of children in boarding schools and children's homes. Thus, the number of children in child institutions decreased from 23.6 thsd. in 2002 to 23.5 thsd. in 2003. The number of children in nurseries and children homes decreased from 922 to 875, in boarding schools for orphans and children deprived of parent's care from 516 to 500 and in general type boarding schools from 18.9 thsd. to 18.8 thsd. in this period. At the same time the number of children in special boarding schools for children with limited health increased from 2860 to 2933 and in boarding schools for mentally retarded children from 359 to 366.

Table 2.11. Distribution of state benefits and privileges (% of recipients by expenditure deciles)

	State benefits	Privileges
1	11.0	6.9
2	10.8	7.8
3	11.8	11.0
4	11.9	11.6
5	11.1	9.6
6	9.6	9.6
7	8.6	6.6
8	9.9	12.7
9	8.4	10.4
10	6.9	13.8

Source: HBS 2003

Education

■ *Background*

¹⁵ Privileges are a system of cash and non-cash benefits (e.g. free public transport) granted to certain categories of the population. This system was inherited from the Soviet period.

The following levels of education exist in the Republic of Azerbaijan: preschool education, primary education, basic education, secondary education, first-level vocational education (school level), second-level vocational education (college level), first level higher education (bachelor's degree), second level higher education (master's degree), post-graduate and doctorate studies. According to the Constitution of the Republic of Azerbaijan, the state guarantees the right to free and compulsory secondary general education. Secondary general education consists of primary education (grades 1-4), basic education (grades 5-9), and secondary education (grades 10-11).

Public expenditure on education rose in absolute terms in 2003 by 218 bln. AZM (44.4 mln. USD) and reached 1174.2 bln. AZM (239.2 mln. USD). However, expenditure on education decreased as a share of total budget expenditure; from 20.5% in 2002 to 19% in 2003 (it was 23.5% in 1990). Public expenditure on education as a share of GDP remained relatively stable: 3.2% in 2002 and 3.3% in 2003, but has decreased considerably since 1990, when the figure was 7.5%. There has also been an increase in per capita annual public expenditures as well: from 117 thsd. AZM (24.2 USD) in 2002 to 142.6 thsd. AZM (29.1 USD) in 2003. Out of pocket expenditures existed in line with public expenditures and according to HBS, amounted to 28 thsd. AZM (5.7 USD) per month in this period. The share of education expenditures comprised 14% of total per capita consumption expenditures – 11.1% for the poorest quintile and 17.3% for the richest quintile¹⁶.

The average monthly wage for the education sector was 211.4 thsd. AZM (43 USD) in 2003, compared to 169.1 thsd. AZM (34.4 USD) in 2002. These amounts represent 55.2% of average monthly nominal wage for Azerbaijan in 2003 and 53% in 2002. The low wage levels encourage teachers to earn income from private tuition. In 2002, the SSC of Azerbaijan Republic conducted a sample survey on "Opinion of the population on reform of school education" in the framework of the EU TACIS program on "Social Statistics" with the support of Eurostat and experts from the Central Statistical Bureau of Finland. According to the results of the survey, 45% of the teachers interviewed were engaged in tutoring and private training with pupils, and 55% of interviewed pupils paid for private lessons with schoolteachers or tutors.

■ Access to education

It is generally accepted that low levels of education re-enforce poverty and limit the poor population's ability to exit from poverty. Knowledge and access to information can have a significant effect on people's ability to find jobs and sources of income. Education is not only a fundamental asset for human development, but is also a key to increasing confidence and interacting in economic, social and political life. On the other hand, poverty sometimes forces families to choose between education and survival; they cannot afford the costs of educating children, or they can afford to pay for a child's education only at the expense of other basic requirements for survival (e.g. food and shelter).

The main problem in access to education is that the enrollment rates tend to decrease the higher the level (grade) of secondary education. (Attendance rates probably decrease more dramatically, but we have no data to monitor this.) The financial difficulties of poor and needy families limit the opportunities of children to complete basic or full secondary education. Usually children from these families do not attend school because their parents cannot afford expenses for clothing and school materials. In this case children have no choice but to work in order to supplement the family budget. The MICS, carried out by the SSC and UNICEF in 2000 showed that 13 percent of children aged 5-14 were working at that time¹⁷. The figure was 6.6% for children aged 5-9 years and 18.7% for 10-14 year olds. School drop-outs are higher in rural areas (see below). This is caused by the need to involve children in agricultural work, and the tendency for girls to marry early. According to the results of MICS 2000, 7.6% of children aged 5-14 living in urban areas were working vs. 18.7% in rural areas.

Preschool education: The number of preschool institutions in the Republic decreased from 1784 in 2002 to 1780 in 2003 (it was 2185 in 1990). However, the preschool enrolment ratio increased during the period: from 19 to 20% of

¹⁶ Calculations are based on the 2003 HBS data.

¹⁷ This figure includes children who are doing paid or unpaid work for someone other than a household member, or who spent more than four hours per day in housekeeping tasks.

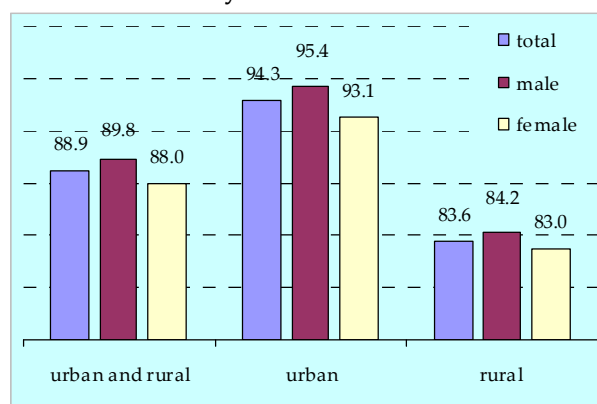
children in the relevant age groups. The figure was higher in urban rather than in rural areas: 32% in urban and 10% in rural areas. This is partly explained by the lack of pre-school institutions in rural areas, and the condition of existing ones is not always satisfactory. According to data from the SSC the number of children per 100 places was 70 in urban areas and 89 in rural areas in 2003.

Primary education: According to official data, gross enrollment ratio of children in primary schools increased from 98.8% in 2002 to 102.4% in 2003. This indicator shows the number of pupils enrolled in a primary education (grades 1-4), regardless of age, expressed as a percentage of the population in the theoretical age group for the same level of education (ages 6-9). The figure exceeding 100% is caused by enrollment of children not in the usual age group for primary levels of education, i.e. in some cases children go to school at early or later ages and there are students re-taking one grade. The increase in primary school enrollment is associated mainly with measures implemented for improving access to education, particularly with distribution of free textbooks to all public school students in grades 1-5 and to IDP and refugee students in all grades in the 2003/2004 school year. Gross enrollment of children in urban schools is higher than in rural ones: 113.4% and 93.2% respectively. Some families from rural areas prefer their children to attend urban schools (if they live close to a Rayon Centre, or have financial resources for transportation) and this situation leads to the difference in gross enrollment rates between urban and rural areas. It is important to note, that the share of girls and boys at the level of primary education is almost equal both in urban and rural areas.

Basic education: The gross enrollment ratio for basic education¹⁸ did not change considerably and was equal to 88.9% in 2003 compared to 88.8% in 2002. However, there are some problems in enrollment at this level of education. The existing data suggests that there are drop-outs from basic education. As Figure 2.10 shows, there are more problems with enrollment in rural areas, particularly among girls. As was mentioned above, it may be that a certain part of children are obliged to work to earn extra income for the household. According to official data, more than 11% of children do not complete even basic education. Such a situation is an obstacle on the way of achieving the national MDG of achieving near-to-universal secondary education.

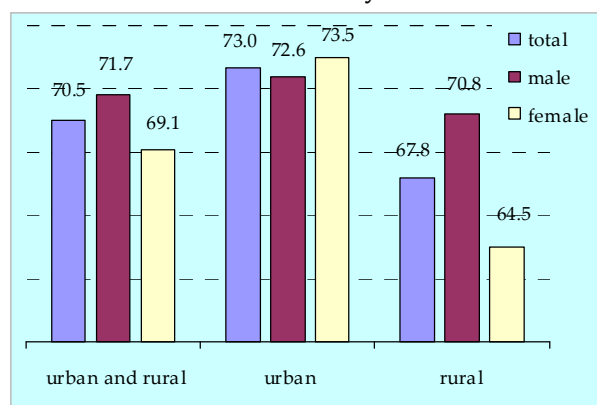
Secondary education: The gross enrollment ratio in secondary education¹⁹ was 70.5% in 2003. This figure is considerably lower than that for the basic education level, suggesting that after basic education a part of children leave secondary schools. Some of them continue their education at vocational schools (see below) and others just stop their education. However, the gross enrollment rate has increased considerably over the last year: from 63.4% in 2002 to 70.5% in 2003. As in basic education, there are gender and urban-rural

Figure 2.10. Gross enrolment ratio in basic education (grades 5-9) at the beginning of 2003-2004 school year



Source: SSC

Figure 2.11. Gross enrolment ratio in secondary education (grades 10-11) at the beginning of 2003-2004 school year



Source: SSC

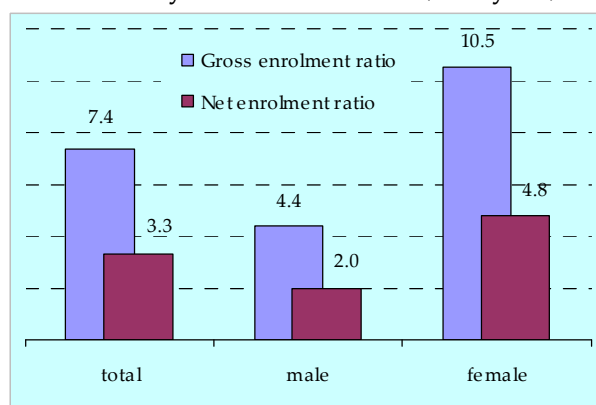
¹⁸ The indicator shows the number of pupils enrolled in a basic education (grades 5-9), regardless of age, expressed as percentage of the population in the theoretical age group for the same level of education (ages 10-14).

¹⁹ The indicator shows the number of pupils enrolled in upper secondary education (grades 10-11), regardless of age, expressed as percentage of the population in the theoretical age group for the same level of education (ages 15-16).

differences in enrollment. The gender difference in secondary enrollment in rural areas is considerably higher. Lower enrollment for girls may again be associated with early marriages.

Vocational education: There are two levels of vocational education in Azerbaijan: first (school) and second (college) levels of vocational education. First level vocational education is given at vocational schools and vocational lyceums. There are classes in these schools for those who have left school after 9 classes of general secondary education, and classes for those who have had 11 years of general secondary education. Second level vocational education is carried out in specialized secondary education institutions. The gross enrollment ratio in first level vocational education increased from 2.9% in 2002 to 3% in 2003 (share of 15-18 year olds), while the net enrollment ratio tended to decrease: from 2.6% to 2.2%. The share of girls was 30.5% in the overall number of students.

Figure 2.12. Gross and net enrolment ratios in secondary vocational education (15-18 years)



Source: SSC

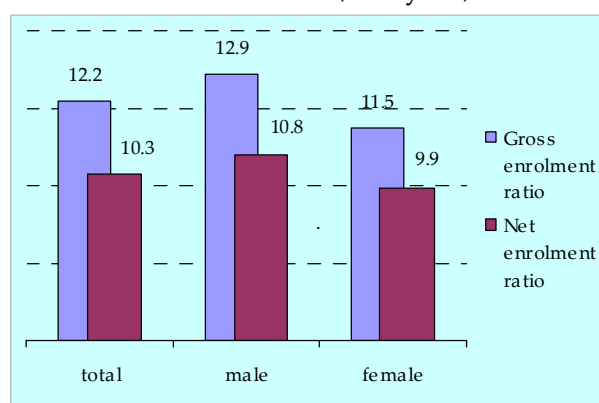
The gross enrollment ratio in second level vocational education increased from 7.2% of 15-18 year olds in 2002 to 7.4% in 2003. This was caused by an increase in female enrollment: gross enrollment of female students increased by 0.3% and net enrollment by 0.5%. The indicators did not change for male students. It is important to note that if gross enrollment for male students was 35% higher than female students in 1990, female enrollment was 2.4 times higher than male enrollment in 2003 (for more information see the Chapter on Gender).

Higher education: Both gross and net enrollment ratios in higher education²⁰ decreased slightly in 2003 (the figures were 12.5% and 10.6% respectively in 2002). Figure 2.13 shows, that 10.3% of population aged 17-22 were enrolled in higher education institutions in 2003. Enrollment rates for male students are higher than female ones. Enrollment decreased for male population: gross enrollment ratio by 0.7% and net enrollment ratio by 0.5%. Gross enrollment ratio for female population increased by 0.2% and net enrollment remained stable (9.9%) for 17-22 year olds.

■ Quality of education

Although general education schools are widely available throughout the country, a disturbing trend of widening differentials in the quality of education services has started to appear, due to the lack of access to learning materials, deteriorating physical conditions of schools, and low qualified teachers. According to statistical data from the SSC, the level of teachers' education showed a slight decrease during the last two years. Thus, the share of teachers with higher education in state day general education schools decreased from 79.8% in 2001 to 79.6% in 2003, while the share of teachers with secondary pedagogical education has increased from 18 to 18.4%.

Figure 2.13. Gross and net enrolment ratios in higher education in 2003 (17-22 years)



Source: SSC

²⁰ Gross enrollment ratio in higher education shows the number of students enrolled in higher education, regardless of age, expressed as percentage of the population in the theoretical age group for the same level of education; net enrollment ratio in higher education shows the number of students at the age of 17-22 enrolled in this level of education expressed as a percentage of the total population in that age group.

As the results of the above mentioned survey on “Opinion of population about reforming of school education” show, 77% of teachers-respondents consider that further improvement of school work could be achieved by increasing salaries, and 48% mentioned the improvement of the “material-technical” base of schools as the main factor. One in five also considers it necessary to improve the training of teachers in higher educational institutions, retraining and raising the skills of working teachers, as well as to give an opportunity for them to show creative initiative and independence.

Among the interviewed teachers, only two in five with service records of more than 10 years, had increased their qualification for the last five years.

The survey data suggests that the quality of teaching was affected by: weak material and technical base of school (55% of teacher-respondents), lack of methodological literature (40%), lack of new schoolbooks and necessary assistance from the side of parents (35%).

Table 2.12. Attitude of parents to training with tutor for admission to higher educational institutions (%)

Respondents considered that the training with tutor is:	Urban and rural population	Urban population	Rural population
Necessary	44.7	47.7	37.5
Not necessary	55.3	52.3	62.5

Source: Report on Results of Survey on opinion of population about reform of school education. SSC. Baku – 2002.

According to the results of the survey, there is not much difference in the share of respondents considering that training with tutor is necessary for admission to higher educational institution and the number of those who consider that it is not necessary (44.7 and 55.3% accordingly). But the share of those who thinks that the training with tutor is not necessary for admission to higher educational institution is higher in rural areas than among urban population.

Health

■ Background

Expenditures on health care from the State Budget increased in absolute terms from 224.1 bln. AZM (46.4 mln. USD) in 2002 to 276.6 bln. AZM (56.4 mln. USD) in 2003. However, the share in total budget expenditure decreased from 4.8% to 4.5%, and the share of GDP remained stable: 0.8%. Per capita annual expenditures on health from the State Budget amounted to 33.6 thsd. AZM (6.8 USD) in 2003. According to the HBS, the average monthly out-of-pocket expenditures amounted to 44.4 thsd. AZM (9 USD) in 2003²¹. People in the first expenditure (poorest) quintile spent an average of 21 thsd. AZM (4.3 USD) on health, and in the fifth quintile (richest) 75 thsd. AZM (15.3 USD) per month. The share of these expenditures in overall consumption expenditures was also higher for upper quintiles (17% in the first and 24% in the fifth quintile).

■ Access to, and quality of, health care services

According to official statistics, the number of registered morbidity cases per 1000 population has decreased from 212 in 1995 (the figure was 245 in 1990) to 171 in 2003. The number of persons using outpatient services and ambulance services per 1000 population also decreased in this period: from 146.3 in 1995 (204.5 in 1990) to 109.4 in 2003. The sharp decrease in these indicators may be due to improvements in the population’s health status, but may also be due to a reduction of use of services.

Notwithstanding the fact that most services provided by state health facilities are free of charge in Azerbaijan, low salaries in the health sector mean that service providers take unofficial fees from patients for providing the services. The average monthly wage of health and social workers was just 110 thsd. AZM (22 USD) in 2003, which

²¹ Unfortunately, the HBS data do not allow us to distinguish between one-off health expenditure, and regular on-going expenditures.

amounted to 28% of the national average monthly wage. Unofficial payments are widespread in the country, and this limits the access of the poor population to these services. Poor people usually try to treat the different kinds of diseases by traditional methods or use drugs without a prescription or a doctor. The behaviour of the population depends on their perception of the quality of services offered (the quality of services is analyzed below). In some cases, they use healthcare services, but their budget is not enough to complete the treatment. Often poor people do not have enough resources to purchase all the drugs prescribed by a doctor. Sometime this leads to complications, and the treatment becomes more difficult (and expensive).

The Baseline Survey²² carried out within the framework of the Health Reform Project in 10 districts of Azerbaijan (5 pilot districts: Goychay, Salyan, Khachmaz, Shamkir and Sharur and 5 control districts: Kurdemir, Sabirabad, Qusar, Qazax and Babek) in 2002 revealed, that a large part of population uses self-treatment or do not use any treatment in cases of illnesses. According to the results of the survey, the share of population that used self-treatment was 16% in pilot and 17% in control districts. 24% of population in pilot districts and 25% in control districts did not use any treatment. The situation is worse in rural areas. 21% of the rural population used self-treatment methods and 26% did not use any treatment in pilot districts. The figures were 22 and 28% for control districts respectively.

Thus low salaries have affected the motivation of health workers, and hence the quality of services negatively. The deterioration in quality has left many people unwilling to seek medical services in cases of illnesses. However, a series of broad health care reforms are being implemented in the country, which should lead to improvements in the use and quality of health services for all sections of the population.

■ *Population's health status*

There have been changes in the relative weight of factors affecting morbidity and mortality rates in recent times, due to, inter alia, the increase in psychological stresses caused by the war situation and by poverty, changes in the environment, and developments in the health care system. According to the SSC, the incidence of illnesses related to the circulatory system per 100000 population increased by 36.4% in 2003 in comparison with 1995 (by 45.3% if compared with 1990). However, there have been improvements in the treatment of cardiovascular diseases that prevented a significant number of deaths that could be caused by these diseases. Thus, the death rate (per 100000) caused by this type of illness is still increasing, but only slightly (by 1.2% in the period 1995 – 2003, compared to 15.9% between 1990 and 1995).

Considerable improvements were also made in the treatment of respiratory system diseases. Incidence of these diseases per 100000 population declined by 21.7% in the period since 1995, while the death rate declined by 2.2 times. Thus, while the overall mortality rate per 1000 population has decreased by 10% during the period of 1995-2003 (see: Chapter on Demography), there have been considerable changes in the causes of deaths. If cardiovascular diseases accounted for 50.7% of deaths in 1995, they caused 57.1% of deaths in 2003. The share of deaths caused by illnesses related to the respiratory system decreased by two times (from 12.8% in 1995 to 6.4% in 2003). One of the reasons for the decrease in deaths due to respiratory illnesses, is that the treatment of them requires relatively low expenditure both from the health care system and patients.

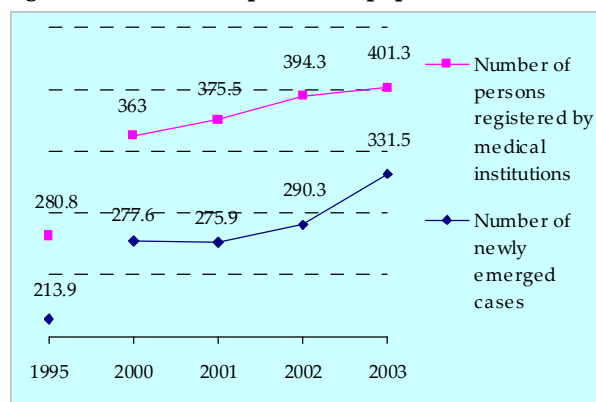
There have also been changes in the disease incidence by age group. According to administrative data, if children under 14 years old accounted for 48% of all morbidity cases in 1990 and in 1995, the figure was 44% in 2003. Such a trend could partly be explained by the influence of poverty, since parents usually give priority to the health care needs of their children, and in poor families adults very often do not have resources left for their own health care.

One of the health indicators usually linked to poverty is anaemia. The prevalence of anaemia has gradually increased: 331.5 new cases of anaemia per 100000 population were recorded in 2003 in comparison with 219.3 in 1995.

²² Sample size was 450 households per district and confidence interval 95%.

Communicable diseases: Poverty increases the risk of communicable diseases as well. However, the available regular data shows a decrease in the incidence of these diseases in recent years. Thus, according to SSC, the incidence of malaria continued to decrease and reached 482 cases in 2003. 355 persons were infected with malaria during the first 9 months of 2004. The number of newly registered TB cases has decreased from 54.5 to 48.3 and the number of cases registered by medical prophylactic institutions from 178.2 to 167 per 100000 population in 2002-2003 period. 95-96% of TB cases are TB of the respiratory system. 32.6 cases of TB of respiratory system per 100000 population were recorded during 9 months of 2004.

Figure 2.14. Anaemia (per 100000 population)

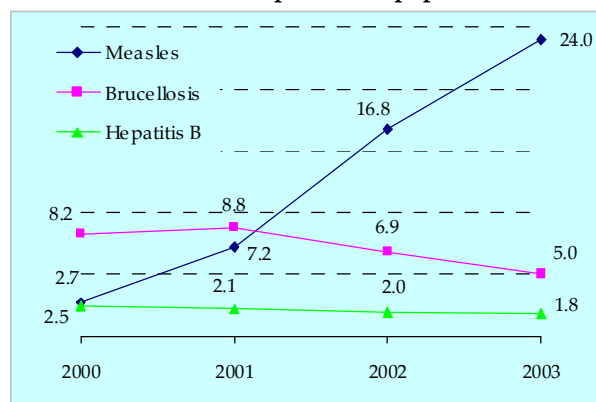


Source: SSC

The situation with regard to diphteria, pertussis and tetanus also improved in recent times. Thus, no cases of diphteria have been recorded since 2000. The number of pertussis cases decreased from 11 to 1 and cases of tetanus from 3 to 1 in the period 2000-2003. 2 cases of pertussis were recorded in the first 9 months of 2004.

Prevalence of hepatitis B and brucellosis also decreased according to official statistics (Figure 2.15). 1.6 and 4.4 cases per 100000 population were reported for the period of 9 months of 2004 for these diseases respectively. On the other hand, the prevalence of measles steadily increased in recent times and reached 24 cases per 100000 population in 2003. The figure was 9.4 for 9 months of 2004.

Figure 2.15. Incidences of measles, hepatitis B and Brucellosis (per 100000 population)



Source: SSC

There is evidence that self-treatment is largely used for treatment of malaria, as the population living in the areas of high prevalence of the disease knows the drugs against it and uses them without the prescription of a doctor. Thus, the malaria figures could underestimate the real extent of the problem. However, the data on other diseases can be considered reliable, as they cannot be treated by patients themselves, and are therefore likely to be registered by state health facilities.

Prevalence of HIV/AIDS: According to the SSC, 114 new cases of HIV/AIDS were recorded in 2003. According to Azerbaijan National Centre in Response to AIDS, 109 more persons were infected with HIV/AIDS by November 26, 2004 and the total number of HIV infected people reached 706 persons. 675 (95.6%) of them are citizens of Azerbaijan and 31 (4.4%) are foreigners (the number of the latter is considered an under-estimate, due to the lack of mechanism for testing them). One interesting fact is that 299 citizens of Azerbaijan (44.3%) were infected abroad because of migration. 98% of all infected people are unemployed. 76.9% (519 persons) of infected people are men and 20.1% (136 persons) women (the sex of 3% i.e. 20 persons is unknown). 78.2% (528 persons) of infected citizens of the Republic are in the 15-39 year age group (43% in the 30-39 age group). 1.3% (9 persons) of all infection cases were caused by transmission of the disease from mother to child. 7 cases of HIV infection were detected among pregnant women in 2004 versus 13 in 2003. The number of tests among pregnant women was 33205 and 29375 accordingly.

Vulnerable groups, like drug users, people infected with venereal diseases, prisoners, sexual workers, homosexuals, migrants, drivers, communal servants, recipients of donor blood are those most likely to be tested for HIV/AIDS. Thus, 47.6% (321 persons) of all detected cases of infection among the citizens of the Republic are

drug injectors, 24.3% (164 persons) heterosexuals, 0.4% (3 persons) homosexuals and 0.1% (1 person) people who received donor blood. However, according to the Centre in Respond to AIDS, the low number of tests does not allow them to carry out exploratory tests among all the vulnerable people and estimate the real status of the HIV/AIDS epidemic in the country. For example, 189410 tests were carried out in 2004 (by November 26), which covered only 2.4% of total population. Thus, the number of infected citizens is likely to be much higher than the number registered.

■ Child health

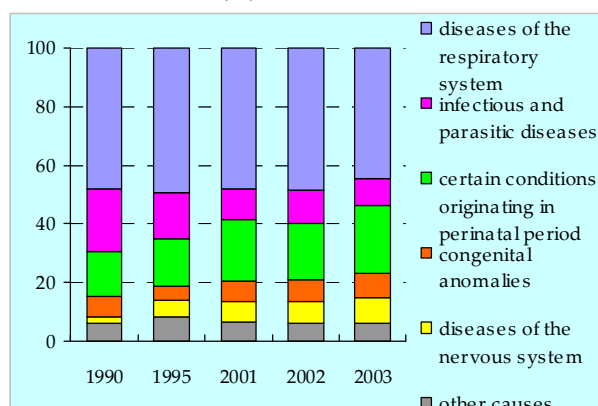
Poor reproductive health status, high child and maternal mortality rates are generally considered to be key non-income indicators of poverty. Official figures on child mortality showed a slight improvement last year. According to the SSC, under-five mortality decreased from 23.1 per 1000 live births in 2002 to 19.9 in 2003. Infant mortality in 2003 was recorded at same level as in 2002 – 12.8 deaths per 1000 live births. However, there is evidence that not all child deaths are reported, and that these estimates based on administrative data underestimate the scale of the problem. For example, the RHS²³ carried out in 2001, provided an estimate of 88.4 for under 5 mortality and 74.4 for infant mortality for the 1996-2001 period. The results of the “Survey on Registration of Infant Birth and Mortality in Azerbaijan” (2002) suggests that 55.2% of infant deaths in 2002 were not registered. Comparing this figure with official data brings to 26.6 infant deaths per 1000 live births in 2002/3.

The main causes of infant mortality are diseases of the respiratory system. 44.7% of infant deaths were caused by diseases of this group in 2003. Figure 2.16 shows that the percentage of infant deaths caused by diseases of the respiratory system and by infectious and parasitic diseases tended to decrease, while the share caused by certain conditions originating in perinatal period, problems with the nervous system and by congenital anomalies increased in the period since 1990.

The results of the Survey on Registration of Infant Birth and Mortality confirmed that illnesses connected to respiratory system are the main causes of infant deaths in the Republic. The survey shows that these illnesses caused 24% of deaths in 2002, while the administrative data showed two times more. Lower percentages were discovered for certain conditions originating in perinatal period (11% vs. 19%), infectious and parasitic diseases (4% vs. 12%). Contrary to this, higher estimates were discovered for congenital anomalies (16% vs. 8%) and disorders connected to the digestive organs (8% vs. 1%).

Access to safe drinking water is very important for children’s health. Unfortunately, the available statistical information does not allow us to monitor the use of safe drinking water. However, the Survey on Registration of Infant Birth and Mortality gives some data on use of water from different sources (Table 2.13). The figures are not so different for households with a newborn child and those with an infant

Figure 2.16. Deaths of under 1 children by main causes of death (%)



Source: SSC

Table 2.13. Source of drinking water in households with a child born in 2002 and those with an infant death (%)

	Households with a child born in 2002	Households with an infant death
piped water	54.1	59.7
well	16.9	11.2
river and other water reservoir	15.0	17.9
transported water	10.4	8.2
other sources	3.5	3.0

Source: Report on survey results regarding registration of infant birth and mortality in Azerbaijan. SSC, Sida, Statistics Sweden. Baku-2003

²³ Source: RHS 2001.

death, suggesting that poor quality of drinking water is not one of the main factors contributing to child mortality rates in the country.

Thalassemia: One of the diseases associated with poverty is thalassemia²⁴, usually occurring as a result of marriages between relatives. The treatment of the disease is very costly and unaffordable for low-income families. The spread of the disease has been increasing in recent times. According to official statistics, 140 new cases emerged among children under 14 years of age in 2003, compared to 106 cases in 2002. The number of cases among children under 14 years of age registered by medical-prophylactic institutions increased from 10.8 per 100000 population in that age group in 2002 to 16.1 in 2003.

Immunization status of children: Immunization plays a crucial role in the healthy development of children. A slight deterioration was observed in children's immunization status in 2003. The share of children under 1 year vaccinated against TB decreased from 99.1% in 2002 to 98.5% in 2003. The share of children immunized for DTP (diphtheria, tetanus and pertussis) decreased from 97.4% to 96.5%, against poliomyelitis from 99.1% to 97.5% and against measles from 98.8% to 97.2%. An improvement was observed only for vaccination against Hepatitis B. The share of infants immunized increased from 96.4% to 96.6% in this period.

■ *Maternal health*

According to regular administrative data, maternal mortality decreased from 19.9 deaths per 100000 live births in 2002 to 18.5 in 2003. However, as was shown in the last SPPRED/MDG Annual Report (for 2003), official figures are likely to underestimate the real situation. UNICEF's MICS carried out in 2000 provided a completely different estimate for this indicator: 79 cases of maternal death per 100000 live births in 1988. Thus, as is the case with child mortality figures, the real level of maternal mortality probably lies somewhere between official and survey estimates.

Mothers living in poverty in some cases deliver their children at home due to the fact that they cannot cover unofficial payments associated with maternity clinics. Home deliveries usually have a negative effect on the health status of the mother and child, and can put their lives in danger. According to administrative data, 99.7% of births were assisted by skilled health personnel in 2002 and 2003, in comparison with 97.3% in 1990. However, the official figures are likely to overestimate the real situation. Thus, as was noted in the SPPRED/MDG Annual Report 2003, different surveys have provided lower estimates for skilled assistance at delivery. The RHS (2001) put the figure at 89% for the 1996-2001 period. According to a survey of mothers carried out by SSC in 2001²⁵, 79% of respondents completed their pregnancy in hospital (15.3% at home and 5.7% at home with further hospitalization). According to the results of a survey conducted by SSC with support of Sida and Statistics Sweden in 2003, only 79.6% of the total number of infants were born at hospital. 17.6% were born at home; 2.8% were born at home and then moved to hospital.

Teenage births also create risks for maternal and child health. The share of mothers under 20 years of age giving birth to their children has increased since 1990 (see: Chapter on Demography). It is worth mentioning that parents under the minimum marriage age (17 years for women and 18 for men) cannot register their marriages, and so neither their children. Therefore, the number of teenage births may be considerably higher than official data.

In spite of the fact that the use of contraceptives is considered an important method for prevention of unwanted pregnancies, abortions and sexually transmitted diseases, there are a lot of poor people who do not use contraceptives. Either they do not have enough information about modern methods of contraception, or they cannot afford them. Despite the fact that free contraceptives are available from Family Planning Centres throughout the Republic, not all families use these services. And the people who apply to these Centres are mainly women. Men are usually too embarrassed to apply to the Centres.

²⁴ Thalassemia is a blood disease associated with the destruction of haemoglobin.

²⁵ The survey was carried out in maternity units and involved 467 respondents.

The administrative data shows that the use of contraceptive agents continued to decrease in 2003. The share of women at reproductive age (15-49) with Intrauterine Devices decreased from 1.4% in 2002 to 1.3% in 2003 and the share of women using hormone-based contraceptives from 1.9% to 1.7%. Again different survey estimates are available for contraceptive prevalence. The survey of mothers carried out by SSC in 2001, gave an estimate of 41.1% for mothers in the 15-49 year age group, while the RHS estimated that 55.4% of married women aged 15-44 years were using contraceptives in the same year (see: SPPRED/MDG Annual Report 2003).

According to the SSC, the number of abortions per 1000 females aged 15-49 years decreased from 7 in 2002 to 6.9 in 2003. However, there is some evidence that not all cases are reported. The RHS 2001 estimated a much higher abortion rate: 116 abortions per 1000 women aged 15-44 years in a period of May 1998 – April 2001.

Living Standards of Refugee and IDP Population

■ Background

Refugees and IDPs make up approximately 10% of the country's overall population, and are generally thought to be the one of the most vulnerable sections of the population. More than 15 years after the start of the conflict with Armenia, the refugee and IDP population still suffer from poor housing conditions, with most of them living in non-residential premises. The lack of any permanent political solution to the conflict has led to both desperation and apathy among this part of the population. However, the government has recently started an intensive programme to resettle displaced persons, and housing construction for the refugees and IDPs continued in 2003-2004, using funds from the SOFAR.

It is difficult to carry out regular monitoring of the welfare of refugees and IDPs due to the lack of statistical data on this section of the population. Administrative data are available from the SCRIDP, but are not always reliable, since the refugee/IDP population tends to move around informally to find work/accommodation, and thus data on, for example, place of residence and employment become outdated very quickly. There are no regular surveys on the living standards of this section of the population, although a series of one-off surveys have been carried out over the past decade (with different sample sizes and different subject matter). The HBS sample is designed to include refugees/IDP households in proportion to their share in the overall national population, but due to the mobile nature of this section of the population, they are not always found in the addresses/areas where the sample has been designed to capture them. The UNDP/WB carried out a survey of refugees and IDPs in 2002, which looked at their living standards in comparison to those of the local population living in the same area(s). The SPPRED policy matrix (under poverty monitoring) envisaged the carrying out of similar surveys on a regular basis, in order to monitor the improvements in refugee/IDP living standards, and design appropriate interventions to support them.

During discussion of the country-specific MDGs for Azerbaijan, a proposal was put forward for Target 11 of Goal 7 to improve the housing and overall living standards of refugees and IDPs. The exact wording of this target is still under discussion.

■ Demography

At present, demographic data on the refugee and IDP population is available from the SCRIDP. A total of 311000 refugees and 577906 IDPs were living in Azerbaijan as of December 1, 2004. These figures are based on the information given by local government offices in areas where there is a high density of IDP population. As mentioned above, the data are not considered to be very reliable, due to the unregistered migration of IDPs and refugees from areas where they were originally settled. The same indicators for 2003 were 210492 and 574663 people. The increase in the number of refugees has been caused by migration from such countries as Afghanistan, Russia, Palestine, Iraq and Iran.

■ Housing and Living Conditions

As mentioned above, there is a problem in getting regular and reliable survey data on the living conditions of refugees and IDPs. One part of the refugee and IDP population has been fully re-settled in the period passed from the conflict. This is reflected in the data on the types of accommodation where IDPs are living. The government has made particular efforts to resettle IDPs who were living in places not suitable for habitation. For example, IDPs living in dug-outs or old farm buildings were all re-settled in 2004 (whereas in 2003, 59240 IDPs were still living in these types of accommodation). The number of IDPs living in newly-built houses increased from 10511 in 2003, to 67779 in 2004. Efforts are also made to provide housing for other IDP households.

Apart from these figures, there are also data from one-off surveys carried out by different NGOs; however, the figures derived from such surveys often produce contradictory results. The information provided in this section is derived from two main sources: the 2003 HBS28 carried out by the SSC, and a survey entitled "Living standards survey of refugee and IDP population and preparation of proposals and recommendations to reduce their poverty level"29 carried out by SIAR Research Center.

According to the HBS statistics for 2004, the majority of IDPs is still living in hostels and non-residential premises.

Table 2.14. IDP Accommodation (%)

	2002	2003
A separate house ²⁶	23.3	20.8
Part of separate house	4.5	2.8
Shared apartment	23.0	28.8
Hostel	15.2	13.6 ²⁷
Other	34.0	33.9
Total	100.0	100.0

Source: HBS

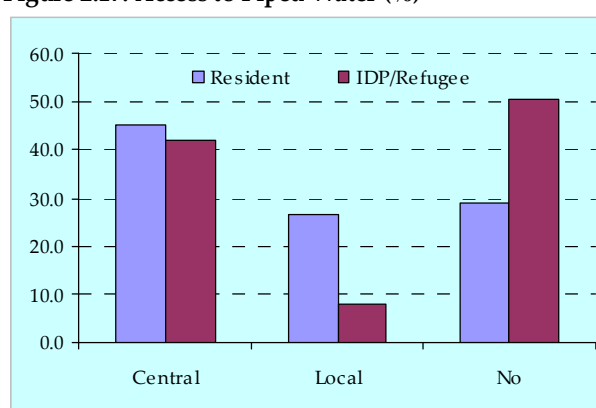
IDPs living in buildings and areas not suitable for accommodation have limited access to utility services. Regular water supply is of great importance for the households in order to maintain their sanitary and health status. However, the 2003 HBS indicators show that approximately one half of the IDPs interviewed for the survey have no direct access to piped water. The results of LSSRIDP suggest that although there is piped water available in the places inhabited by IDPs, they are usually shared by several households. 82.8% of the respondents in the survey, covering different regions of the country, got their drinking water from a public water tap.

The HBS results suggest that most IDPs with no direct access to water pipes take drinking water from natural sources. This leads to the spread of infectious diseases, particularly among IDPs settled in the Central region. The LSSRIDP results show that most or a large part of the IDPs settled in three survey regions (except for Bilasuvar) was dissatisfied with the quality of their drinking water (57.6% respondents in Sabirabad, 47.6% in Saatly, 42.8% in Barda)³⁰.

■ Income and Poverty

The information available on income poverty among the IDP population is limited, but it does provide clear evidence to suggest that the well-being of refugees and IDPs considerably differ from local population. Poverty incidence among IDPs appears to be decreasing. According to the SPPRED document, in 2001 the poverty rate

Figure 2.17. Access to Piped Water (%)



Source: HBS 2003

²⁶ So far no reason has been found for the drop in the share living in separate houses between 2002 and 2003.

²⁷ 14% according to the SCRDP.

²⁸ 2003 HBS covered 2900 refugees and IDPs, and 761 households. Theoretically, the HBS sample should include the refugee and IDP population in proportion to their share in the overall population.

²⁹ The survey was carried out in 2003. The survey covered covering 1014 households in the areas densely settled by IDPs and refugees: Saatly, Bilasuvar, Sabirabad, and Barda. The survey used random probability sampling methodology.

³⁰ LSSRIDP – 2003.

among IDPs was 63%. This figure was 50.3% in 2003. However, as stated above, the HBS results on IDPs have to be used with caution, because we cannot be sure that they are fully represented in the sample.

Table 2.15, comparing main income sources for refugee/IDP households with those of other households, confirms that the IDP population has been disadvantaged with regard to its rights to participate in the land distribution process (2.77% of IDPs work on their private farm, compared to 12.35% of the local population); and the table also reflects the fact they are advantaged in the sense that they still benefit from state assistance targeted on a categorical basis to IDPs (8.52% of IDPs have social benefits as their main source of income, compared to 0.08% of the local population).

According to the LSSRIDP results, the respondents with relatively higher average monthly income are from the households with 6 and more members.

Figure 2.18 shows that the average per capita income level of IDP households strongly depends on household size. This is interesting to compare with the national results for the whole population, as reflected in the poverty figures based on the HBS, which suggest that family size and number of children lead to a greater poverty risk. However, each IDP (individual) is provided with a monthly state social assistance benefit of 25000 AZM. The figure shows that this has a significant effect on household income levels, since household per capita income levels rise according to the number of members receiving this benefit.

The HBS is the only nationally representative survey which can be used to estimate the poverty level for the country's population. As mentioned above, it covers a certain number of IDP and refugee households. The figures for poverty incidence among IDPs/refugees provided here are based on the results of this survey. Overall, estimates show that poverty levels among the local population are slightly lower than for IDPs and refugees (44.1% and 50.3% respectively). However, this difference is more obvious when the data is disaggregated by urban/rural areas. Thus, the highest poverty level is found among the IDPs/refugees living in rural settlements (60.6%); while those living in urban areas have a poverty rate which is slightly lower than the local resident population (41.2% and 44.4% respectively).

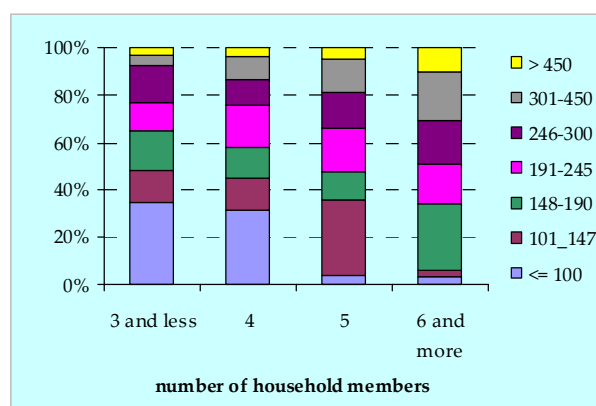
The result for IDPs in urban areas could be explained by several factors: on the one hand, it could be a data collection problem, i.e. there may be under-reporting of incomes and expenditures of the local resident population; or, the result may be explained, by the high incomes which the IDPs/refugees population derive from their commercial activities in towns. While the first reason could be investigated in a methodological way, there is no reliable data source to test the second hypothesis, due to the lack of survey data on the employment of the IDP/refugee population.

Table 2.15. Main Sources of Income for Refugee/IDP Households (%)

	Resident	Refugee and IDP
Hired by the state sector	12.43	9.80
Hired by the private sector	3.10	2.53
Hired by agricultural sector	0.30	0.69
Entrepreneurial, commercial activities	4.14	5.32
Work in a private farm	12.35	2.77
Free-lance activity	6.49	6.65
Work for individual person	3.71	3.85
Pension	12.77	13.23
Study grant	0.62	0.31
Social benefits	0.08	8.52
Dependents	43.67	46.20
External transfers	0.33	0.12
Total	100.00	100.00

Source: HBS 2003

Figure 2.18. Income of IDP households by number of members (thsd. AZM)



Source: LSSRIDP 2003

■ Employment of IDPs/Refugees

According to the information supplied by SCRIDP for 2004, the number of people at working age among the IDPs is 286361. Only 86361 (30%) of them are officially employed. Some alternative estimates of the employment status of IDPs/refugees can be derived from the results of LSSRIDP.

The results of the LSSRIDP suggested that 80.7% of the IDPs were not employed during the survey, the majority of whom were of working age. Approximately, one third (28.7%) of those not employed were pensioners, 6% - housewives, and 4.9% disabled. The survey results showed that, about 60% of the not-employed respondents were temporarily unemployed. However, these results are difficult to use, since the survey questionnaire only asked questions on permanent employment in the formal sector. The results can therefore be used to get estimates of the share of respondents in permanent jobs (19.3%), but they are unsuitable for deriving estimates of the share of employed and unemployed among the IDP population, using ILO-type definitions.

The survey results showed that among the employed the refugees and IDPs, most work in state-owned enterprises and organizations: 55% of employed respondents are employed in state-owned enterprises.

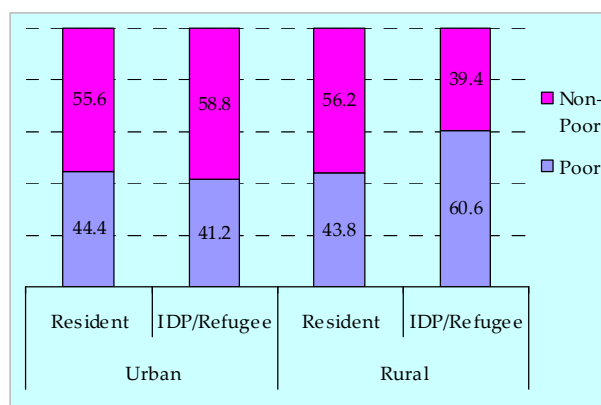
■ Health Status

There are three factors which have a negative impact on the health status of the IDPs: 1) the low level of sanitary conditions in the places settled by IDPs; 2) Malnutrition among the IDPs, especially among young children; 3) Limited access to basic health care services.

The LSSRIDP shows that the sanitary conditions (sewerage systems, toilets etc.) in the living places of 41.2% of IDPs do not meet even the most necessary requirements. For example, 87.7% of the respondents claimed that they did not have a bathroom. It should be noted that there are no bathrooms in the houses of newly built IDP settlement in Bilasuvar region. In addition, lack of a centralized drainage system for waste water encourages the spread of infectious diseases in the areas densely populated by IDPs.

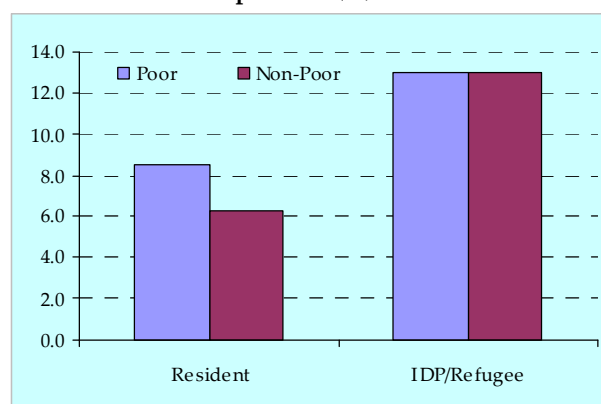
The LSSRIDP also looked at the actual food consumption patterns among IDPs. Using the survey results, estimates were made for how frequently the IDPs living in poor economic conditions consume a number of important foodstuffs including carbohydrates, vitamins, oil and protein, the consumption of which is necessary

Figure 2.19. Poverty level among local population and the IDPs/refugees in rural and urban-type settlements in 2003 (%)



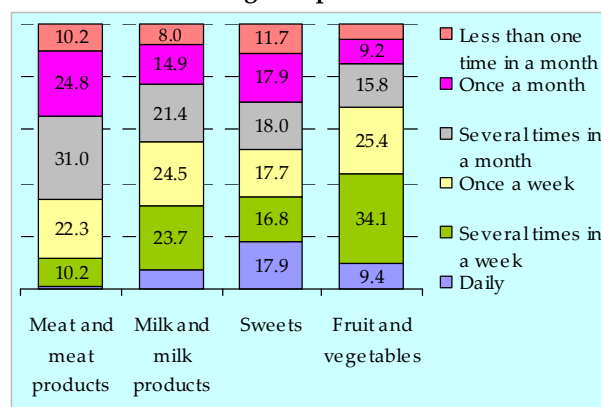
Source: HBS 2003

Figure 2.20. Unemployment rates for IDPs/Refugees and Local Population (%)



Source: HBS 2003

Figure 2.21. Structure of food consumption among the IDP/Refugee Population (%)



Source: LSSRIDP 2003

for the biological development of human organism. It was found that 15.3% of the respondents consumed fruits and vegetables, 22.9% milk and milk products and 29.6% confectionery and flour products once a month or even with the bigger intervals. This data suggest that the pattern of food consumption among the IDPs in Azerbaijan is unhealthy, and may be contributing to a deficiency in basic nutrients in their diet.

The Government has adopted a series of measures to improve access of the IDP population to health care services. These include: exemption from payment for those health care services which are not provided free of charge by the state health service; ensuring access to the IDP population to a range of health care services provided by both government and non-government organizations (eg. distribution of free medicines); ensuring coverage of IDP children with vaccinations against various diseases.

The results of the LSSRIDP show that the majority of the IDPs do in fact benefit from the state privileges regarding health care. 85.2% of respondents claimed that they were provided with free medical services.

■ *Education*

The level of literacy of IDPs does not considerably differ from other social groups of population (the level of literacy among refugees and IDPs is 97.1%)³¹.

According to the LSSRIDP, although the majority of the school age (96.9%) IDP children are enrolled in schools, there are also children who do not get education for one reason or another. It would be wrong to say that there is an absolute link between non-involvement of children in the education process and inadequate material and physical infrastructure of IDP camps (for example: absence or lack of the relevant educational institutions, limited seats, lack of school materials, as well as teaching staff and etc.). Although the above-mentioned factors have a certain negative impact on access of IDP children to education, the LSSRIDP data suggest that both kindergartens and general education schools operate in most areas settled by IDPs. Also, there are no serious problems with provision of free school materials. According to the LSSRIDP, in most cases the reason for non-attendance among school-children is linked to the low-income status of the household. 58% of parents interviewed claimed that they cannot afford the expenses associated with school education for their children.

The Government of Azerbaijan provides young refugees and IDPs with a number of privileges to encourage and support them in achieving higher education (e.g. exemption from payment of education fee if they enter the paid faculty of the state institutions of higher education, free use of campus infrastructure and etc.).

■ *Data Gaps*

It is still difficult to make strong conclusions about the living standards and specific vulnerabilities of the IDP and refugee population, due to the lack of a regular sample surveys covering IDPs/refugees and the local population living in the same areas. The HBS in principle, should provide this data, but the actual numbers in the IDP/refugee sample is small (circa 10% of the sample, in correspondence to the relative weight of the IDP/refugee population in the overall population, so circa 800 households), and the level of response among this sample section is particularly problematic, due to its high level of mobility.

Availability of the full HBS data base would allow more analysis to be done of the impact of the social assistance benefits for IDPs in protecting them from poverty (at present only a restricted data base for the annual HBS is made available by the SSC).

One-off surveys remain valuable, however, they re-state that the vulnerability of this section of the population is continuing due to the lack of a peace agreement. Their uncertain position means that they are excluded from certain economic processes, such as land reform in agriculture, and means that many are still living in temporary and poor quality accommodation.

³¹ SSC, 2001.

Environmental Sustainability

■ Background

Azerbaijan has embarked on the task of integrating the principles of environmental sustainability into its national development plan (SPPRED). Reversing the loss of environmental resources is crucial for the welfare of this and future generations.

Overall environmental impacts can be placed in two categories:

- Traditional impacts: impacts like absence of access to clean water, low levels of sanitation related with poverty and low level of development;
- Modern impacts: air pollution in cities, agro-industrial pollution, etc.

The existing global information suggest that there are two main ways in which environmental pollution can affect the health status of the poor population, namely through air and water pollution. Water pollution causes diseases like diarrhea, malaria, cholera, while air pollution is linked to serious respiratory diseases.

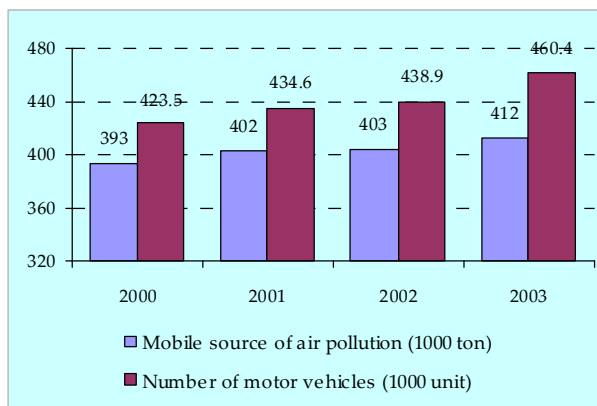
■ Air

Statistical data show that there has been an increase in the number of population suffering from respiratory diseases in recent years. If the number of people suffering from respiratory diseases was 750.8 per 1000 in 2001, in 2003 this number increased to 780 per 1000.

There has been an overall decrease in digestive system diseases since 1995, but a significant increase in the figures has been observed in recent years. This fact cannot directly be linked to water and air pollution. However, there is a link between the increase in the volume of air pollution and the increase in the number of respiratory diseases. 50% of air pollution is due to automobile transportation waste, and its share in the overall volume of pollution is increasing. Total emissions of air pollutants by stationary and mobile sources have fallen since 1990, due to economic recession and reduced industrial activity. In 1990 total discharges into the air from stationary sources amounted to 2.1 mln. tons, while in 2002 this was only 217 thsd. tons. Air pollution is most severe in the capital city of Baku, an industrial hub of the former Soviet Union, as well as in other large cities such as Sumgait, the chemical production centre.

Urban air pollution is a matter of increasing concern in Azerbaijan, due to rapid urbanization, motorization and economic growth. In many cities, transport is said to be the main source of air pollution. The total number of registered passenger cars was 271000 in 1995, and increased by 31% to 356200 cars in 2003. The ageing vehicle fleet and insufficient status of vehicle servicing, inspection and maintenance in combination with poor fuel quality all aggravate air pollution.

Figure 2.22. Sources of air pollution



Source: SSC

Box 2.2: Air pollution in Sumgait

Sumgait was founded in the 1950s as a centre for the chemical and petrochemical industries. It soon became one of the largest industrial centers of the former Soviet Union. Industrial areas occupied over 34% of the city, employing hundreds of thousand of workers. About 88 large facilities were built, of which 10 became heavy air polluters. Annual air emissions were about 100000 tons. Emissions per square kilometer amounted to 1200 tons in 1990-1991, while the average value for Azerbaijan was about 24 tons/km². Apart from the “classic” pollutants, toxic substances, mercury, chlorine, hydrogen fluoride and heavy metals were released into the air, affecting the local population, especially sensitive groups. Persistent organic compounds, such as dioxins and dibenzofurans, were released from petrochemical industries. The city had one of the highest morbidity rates during the Soviet era. In 1992, Sumgait was declared an environmental disaster zone, although air emissions had been declining since 1990. The city was later designated a free economic zone, in order to foster economic growth and the introduction of new technologies there. However, the problems of uncontrolled emissions, persistent pollutants and the liability for past pollution remain unsolved.

Source: Caucasus Environmental Outlook, 2002.

Azerbaijan’s carbon dioxide (CO₂) emissions over the past decade have been declining, mostly because of the country’s economic problems. CO₂ emissions from both petroleum and natural gas processing and use fell. Total CO₂ emissions from fossil fuel combustion decreased from 16.38 mln. tons in 1992 to 9.14 mln. tons in 2001.

■ Soil

Soil quality is still a concern in Azerbaijan. The problems include salinity and erosion. According to information from the Ministry of Ecology and Natural Resources, 42.5% or 3672.6 thsd. ha of soil in the Republic, including 33.7% of cultivated fields, 68.1% of summer pastures, 15.2% of hay fields, and 26% of forests suffer from various kinds of erosion. Mil Field, the Southern part of Mughan, Ganja-Gazakh and Shaki-Zagatala zones suffer particularly from erosion connected with irrigation. The area of summer pastures damaged by erosion in Shaki is about 30%. However, the land area available for agriculture is increasing, with a parallel decreasing in the share of non-agricultural land.

Table 2.16. Distribution of land resources (1000 hectares)

	1998	1999	2000	2001	2002	2003
Soil appropriate for agriculture	4682.1	4692.4	4740.4	4745.6	4744.9	4754.6
Non-agriculture soil	3959.4	3949.1	3901.1	3895.9	3896.6	3886.9
Industry, road and other soils	339.1	311.5	395.1	371.6	367.1	366.8
Areas of special reserve	191.0	192.4	192.1	193.7	217.0	259.2
Forests	1038.2	1037.9	1037.4	1037.6	1037.0	1037.8
Lands under water	124.1	150.4	150.2	143.4	143.6	143.3
Other soil	2267.0	2256.9	2126.3	2149.6	2131.9	2079.8

Source: SSC

■ Forests

One of the key reasons for soil erosion is drastic deforestation. In spite of the fact that official figures suggest that the area covered by forest remains unchanged, assessments conducted for other projects indicate the contrary. It should also be mentioned, that household demand for fuel is the main reason of deforestation. It should be stressed that the use of wood as fuel in households has a negative impact not only on deforestation but also, on the status of household members' health. According to HBS data, more than 33% of people settled in rural typed households do not have access to any natural gas resources.

Wood is the main source of heating, especially for people inhabited in rural areas. 85% of households are using wood. Studies suggest that especially in Khachmaz, the south-east, south-west and Nakhichevan, the use of wood for heating purposes is increasing.

Forests in the north and south-west parts of the country are faced with serious risks. The project on environment currently being developed by the Government of Azerbaijan and the WB will focus on the limited forest areas in these zones.

■ Water

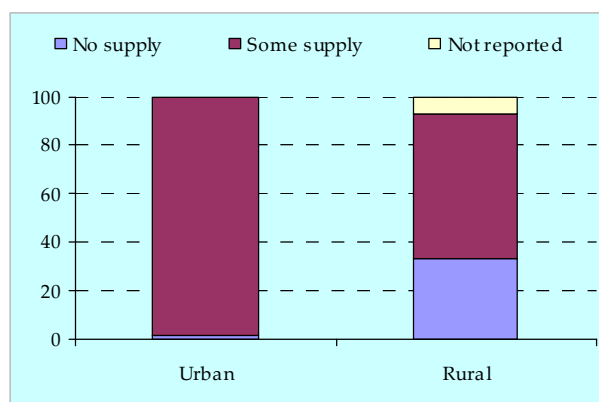
Azerbaijan is poor in terms of available water resources. A large part of the country, notably the Kura-Araz lowlands and the Absheron peninsula, has a significant water deficit due to low precipitation and high evaporation. These areas, where more than 70% of the population lives, are completely dependent on irrigation for its agricultural production.

Water shortage is also caused by the non-rational use of existing water-resources. i.e. due to the vast volume of water losses as a result of the fact, that the water network systems do not meet contemporary technical requirements.

The main issues with regard to water resources are:

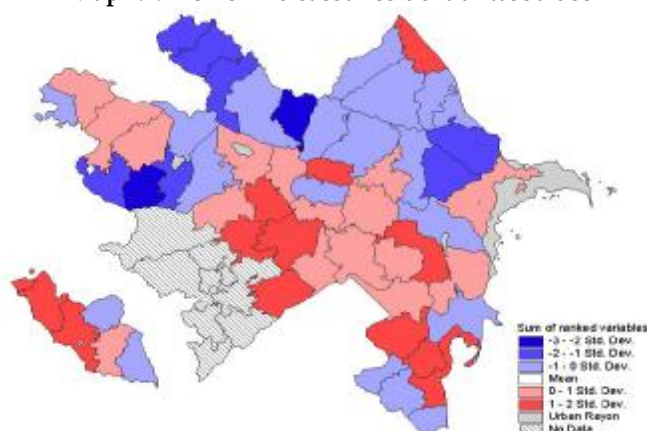
- Shortage of drinking water in Baku and other cities,

Figure 2.23. Share of Households with Access to Natural Gas in Urban and Rural Areas (%)



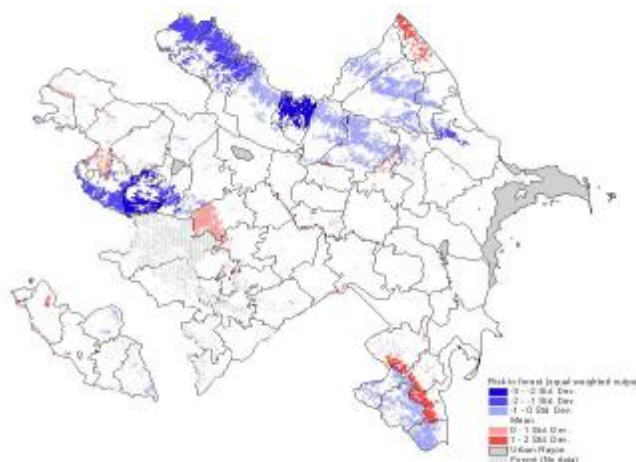
Source: HBS 2003

Map 2.1. Risk of increased residential wood use



Source: GeoData, 2004 (wood use risk is highest in the dark red areas)

Map 2.2. Deforestation risk is highest in the Northeast and Southeast



Source: GeoData, 2004

- pollution of water resources, including the Caspian Sea with household and industry wastes,
- the damages caused by change of water level in the Caspian Sea.

According to the HBS, 39% of households in 2002 had no access to central water supply. However, the figure fell to 31% in 2003, with access improving in both urban and rural areas, but particularly in rural areas.

Quality of Drinking Water: Another important issue regarding supply of the population with drinking water is the quality of water. Three quarters of the population lives in the area of the River Kur, and this river is the source of drinking water for most of the population of the republic. A large part of the water entering Azerbaijan comes from the territory of Georgia and Armenia. The flow of untreated waste water of the cities of Georgia and Armenia into the Kur has a negative effect over its hydrochemical make-up and quality.

A regional solution is required, and a mechanism has to be elaborated with the participation of international organizations to mitigate the problem and clean the 350 mln. m³. untreated waste water flowing into the Kur and Araz from the area of Armenia per year, and 320 mln. m³ waste water flowing into the Kur from Georgia per year. The Ministry of Ecology and Natural Resources of the Azerbaijan Republic has developed a "National Plan on Supply of Water meeting appropriate standards in rural areas of Azerbaijan regions (Stage1)". Improving the quality of the drinking water and making it meet minimum standards is the principal goal of the National Plan. According to the Plan, only 35 out of 75 cities in the Republic have water cleaning appliances. And the existing ones are supplied only with mechanical cleaning aids. The volume of household waste water in Baku amounts to 1.2 mln. m³ per day, and only 50% of it is cleaned. The First Stage of the National Plan sets the goal of providing 50 villages with populations of more than 130 thsd. with high quality drinking water.

Table 2.17. Household Access to Central Water Supply (%)

	2002		2003	
	Urban	Rural	Urban	Rural
Central	66.0	9.2	67.9	14.2
Local	20.0	19.9	23.8	24.9
None	14.0	70.8	8.3	60.8
Total	100.0	100.0	100.0	100.0

Source: HBS

Gender

■ Background

It is generally recognized that it is not economically efficient, nor socially acceptable to deny the benefits of development to a large section of the population on the basis of their sex. Since the 1990s, it has been accepted practice in development assistance not to look at women's issues separately, but to treat gender issues as cross-cutting – to look at how different policy interventions affect men and women, and whether in fact different measures/interventions are required to ensure that men and women have equal rights and opportunities, with respect to employment, access to production resources, social protection benefits, education and health services etc. In line with this approach, SPPRED treats gender as a cross-cutting issue, and attempts were made to bring out the gender issues in each sector. Specific gender policy measures were incorporated into SPPRED labour market and employment; education; health; social protection system and pension reforms; poverty monitoring sections of policy matrices.

Work is beginning on identifying the key gender issues for the country, and within each sector, as part of the process of discussing country-specific MDGs, and the country's new National Plan of Action on Women's Issues. SPPRED and UNFPA are leading the discussion on MDG 3 which is specifically concerned with empowering women, but gender issues are relevant to all of the MDG goals.

The process of identifying key gender issues, as well as priority measures to address them is also being taken forward through the Country Gender Assessment currently being carried out by the ADB and the SCWI; and by

the joint work of SPPRED Secretariat, the SCWI and UNIFEM in ensuring that the needs and priorities of women are fully reflected and incorporated into the country's 10 Year Development Programme for 2006-2015.

In order to identify the main gender issues for the country, and for each sector, it is important that gender analysis is carried out, as a basis for identifying appropriate priorities and policy interventions. It is also important that key indicators for monitoring the achievement of gender policy objectives are identified.

■ *Institutional and Policy Framework for Gender in Azerbaijan*

In 1995, Azerbaijan participated in the International Conference on Women in Beijing, and ratified, with no reservations, the CEDAW.

The SCWI was established by Presidential Decree on January 14, 1998, and given the task of elaborating and implementing the government's gender policy. The main mandate of the Committee, apart from the formulation and implementation of the governmental policy on gender equality, is to encourage women's active participation in public life and decision-making, raise public awareness on gender issues, advocacy, and to protect women's rights in political, economic, social and domestic spheres.

In March 2000, the President of AR signed a Decree "On the Implementation of State Policy on Women's Issues in Azerbaijan". This Decree calls for equal representation of women and men in all state structures of the Republic; providing the refugee and internally displaced women with working places; and a review of the country's legislation to check for gender sensitivity. In order to implement this Decree, gender focal points were appointed in all government structures and in the offices of the executive power in all districts of the country. The latter should work to ensure equal representation of women along with men in state administration, equal possibilities for women within the framework of ongoing economic reforms, and provision of gender expertise for the national legislature.

The National Plan of Action on Women's Issues (2000-2005) was elaborated by the SCWI in close cooperation with all relevant structures and approved by the Cabinet of Ministries in March 2000. This National Plan of Action provides an analysis of gender equality status in the country, sets out national priorities and puts forward policy measures to address the areas of concern defined in the Beijing Platform. This programme sets out clearly the priority directions, but unfortunately it is not costed or linked to budget possibilities. For this reason, it is very important to align the next national plan with the next stage of SPPRED. It is hoped in this way to facilitate implementation of gender issues and ensure that gender policy priorities are reflected and sequenced into the country's overall national development plan.

Date	Events
1992, August 4	Azerbaijan ratified UN convention # 640 on "Political Rights of Women" (1952)
1994	The National Preparatory Committee for participation in Beijing 95 was established by a presidential decree
1995, November	Constitution of the Republic of Azerbaijan was adopted
1995, July 30	Azerbaijan ratified the CEDAW
1995, September, Beijing - 95	The official delegation (25) and representatives of NGO-s (69) participated in Beijing Conference
1995, October Elections to the National parliament	After the parliamentary elections, women held 12% of seats in National Parliament
1996	UNDP held a review of the activities of women NGOs in the country and conducted country needs assesment regarding the problems faced by women
1997-2000	UNDP Project "Gender in development in Azerbaijan" was launched as the first part of the regional project "Gender and Development"
1997	As a part of the project "Gender and Development", a Gender in Development Unit was

	created by the UNDP
1998, January	Presidential Decree on "Strengthening Women's Role in Society" and establishing the SCWI was signed
1998, January	Committee on the Elimination of all forms of Discrimination against Women examined the formal National report of the Government of Republic of Azerbaijan with the regards to the implementation of the CEDAW
1998, May	The UNDP, UNIFEM, the UNHCR and the Azerbaijan Government organised an International conference in Baku called "Women's Role in Armed Conflicts"
1998, September	The first Azerbaijan Women's Conference was held
1999, January	The second phase of the UNDP's regional project "Gender in Development in Azerbaijan" commenced
1999	SSC published a systematic collection of gender disaggregated indicators
1999, December 28	Law on "Marriages and Family" was adopted
2000, January	A Conference on Gender Problems and the Legislation of Azerbaijan was conducted in the National Parliament
2000, March	The Presidential Decree on Implementation of State Women's Policy in Azerbaijan was issued
2000, March	Adoption by the CM of Azerbaijan of the National Plan of Action on Women's Issues for the period of 2000-2005, based on the Beijing Platform
2000, June	Official delegation of the Republic of Azerbaijan participated in the session of the UN General Assembly on Women Problems
2000, November Elections to the National parliament	After the parliamentary elections, women held 10.4% of seats in National Parliament
2001, April	UNIFEM regional project "Women for Conflict Prevention and Peacebuilding in the Southern Caucasus" started its activities in Azerbaijan.
2001, December	First National Report "1995-2001. Post Beijing Period in Azerbaijan" was published
2003, September	The second Azerbaijan Women's Conference was held
2003, October	The Government of Azerbaijan ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime (was ratified earlier)
2003, July	Law on Breastfeeding was adopted by the Parliament of Azerbaijan
2004, May	The SCWI submitted the Beijing+10 Country report to UN
2004, July 14	The Special Governmental Commission developed and the Cabinet of the Ministries approved the State Migration Policy Concept. One of the main principles: protection of migrants rights as well as protection from discrimination and trafficking in human beings, especially in women and children.
2004, October 12	Parliament of Azerbaijan ratified the Final Protocol of the UN Convention for the Suppression of the Trafficking in Persons and of the Exploitation of the Prostitution of Others
2004, November	The SCWI submitted 2-d and 3-d consolidated report to CEDAW Commission

Source: UNFPA, Azerbaijan

Legislation: The main principles of human and civil rights and freedoms irrespective of sex are laid down in the Constitution of Azerbaijan Republic, which states that everyone from birth enjoys inviolable, undeniable and inalienable rights and freedoms (Article 24). The Constitution also emphasizes that "men and women" enjoy equal rights and freedoms, and the state guarantees everyone equal rights and freedoms irrespective of sex, race, ethnicity, language, origin, property situation, social status, religion, convictions, and membership of political parties, trade unions and social organizations.

All the major laws of the Republic (Criminal Code, Civil Code, Labour Code, Marriage and Family Code and others) have been formulated on the basis of the Constitution, and reflect the basic rights and equality for men and women.

But although equal rights for both men and women are guaranteed under the Constitution and the international treaties such as the CEDAW, they are not always applied in practice, partly due to lack of capacity and gender awareness. The gap between de facto and de jure equality must be addressed before genuine gender equality is achieved in Azerbaijan. Through the SPPRED and related programmes, this gap is being analyzed and increased understanding is emerging about the steps/special measures which are required so as to ensure real gender equality.

A new act on equal opportunities for women and men was drafted by the group of experts created by the initiative of the SCWI and is currently being re-drafted by the experts from national parliament office. It consists of 5 chapters and 20 articles, which cover all areas of public life except family issues. This law obliges state bodies of the Azerbaijan Republic to guarantee legal equality of women and men in political, public, economic, social, cultural and other areas, and to provide equal opportunities to both of them and prevent discrimination based on sex.

NGOs: Since 1995, there has been an increase in the number of NGOs working on issues related to women. There are currently about 50 NGO's working on women's issues. The goals of these organizations include advocacy of women's rights, awareness-raising on gender issues and problems, research relating to violence against women, women's status in Azeri society and other activities aimed at improving gender equality in Azerbaijan. They also provide assistance to refugees and IDPs, orphans and other vulnerable groups. Unfortunately, the majority of these NGOs are functioning in Baku and in the regions women have fewer opportunities to participate in them.

■ *Gender Statistics*

To measure gender equality between men and women in Azerbaijan is challenging without more adequate and reliable sex-disaggregated statistics. However, it is important to realize that in measuring actual/de facto equality, qualitative indicators are as important as quantitative data. Quantitative data alone cannot measure the social expectations and norms which dictate the roles of women and men in public and private life, and which both support and hinder the empowerment of women.

One of the policy measures envisaged under SPPRED is developing gender-disaggregated statistics in order to explore the gender dimensions of poverty in the light of disaggregated indicators. In other words, gender-disaggregated indicators have to serve as a basis for further gender analysis. This involves firstly establishing clearly which existing indicators can be disaggregated, secondly which data collection methods have to be changed in order to improve the numbers of gender-disaggregated indicators, and thirdly pointing to gaps in information collection.

The UNDP and UNFPA have provided support to the SCWI and the SSC in compiling the statistical handbook on Men and Women in Azerbaijan, which has been produced on an annual basis since 1999. However, there are still significant gaps in the availability of gender statistics, particularly on women's representation in top political and economic positions (also important for MDG 3), employment and wages, violence against women, school attendance rates, refugees and IDPs etc. Note that the GDI³² and GEM³³ indices cannot be calculated for Azerbaijan, due to data gaps³⁴.

On 16 February 2005 a project document entitled '2005 National Human Development Report on Gender Attitudes', with the principal objective of promoting gender equality in Azerbaijan, was signed by the SCWI, Embassy of Norway, and UNDP. With the financial support made available by the Embassy of Norway, UNDP will examine gender issues in Azerbaijan through survey on gender attitudes, the results of which will be reflected

³² Gender Development Index.

³³ Gender Empowerment Measure.

³⁴ http://hdr.undp.org/statistics/data/country_fact_sheets/cty_fs_AZE.html.

in the 2005 NHDR, thereby stimulating public debate and triggering policy action for ensuring greater gender equality in the country.³⁵

■ *Economic Insecurity*

One of the problems is monitoring gender differences in income poverty (economic insecurity). The main source for estimates of income poverty is the HBS (HBS; see: Chapter 2, section "Poverty: the results for 2003"). Data from this survey is used to get estimates for individual poverty levels on the basis of average per capita household data. Since men and women are more or less equally represented in the household sample, and since their poverty levels are calculated by taking the average for each household, they will automatically have poverty levels equal to their share in the household sample (i.e. almost 50 – 50). The current HBS is therefore not suitable for looking at gender differences in income poverty. This would require further examination of the way in which income and other assets are used/distributed within the household.

The differences in the poverty risk of male and female-headed households based on HBS results also have been analyzed in the Chapter 2, section "Poverty: the results for 2003" can be used to look at Contrary to conventional wisdom, the results of the 2002 and 2003 HBS suggest that male-headed households are more likely to be poor than female-headed households (usually single-mothers or single pensioners are assumed to be a particularly vulnerable section of the population). This result merits further investigation, in order to establish whether there is something in the survey methodology/questionnaire which is leading to this result, or whether there are in fact reasons for female-headed households being slightly better protected from poverty.

Economic Opportunities – Employment and Participation in the Labour Market: Participation of women in the labor market is important for many reasons. If women are economically active, they can benefit equally from social security, pension and health systems. They can contribute to household welfare, and at the same time have more opportunities for social and personal development.

In 2004 the total population was 8265.7 thsd. persons, about 51% of whom (4207.2 thsd.) were women.

Analysis of the data given in Table 2.18 shows that the male-female employment and unemployment rates in rural areas are almost equal. This is due to the fact that in rural areas the population is mostly engaged in small agricultural household plots. In urban areas unemployment rate is higher among women. According to LFS the share of unemployed women among the total number of economically active women is 17.3%, while the share of unemployed men is 12.2%.

Table 2.18. Economically active and non-active population of working age³⁶ (%)

	Urban and rural areas		Urban areas		Rural areas	
	Women	Men	Women	Men	Women	Men
Level of economic activity of population	59.5	83.6	53.8	80.6	67.4	87.4
Employment rate	87.5	90.2	82.7	87.8	92.8	92.9
Unemployment rate	12.5	9.8	17.3	12.2	7.2	7.1

Source: LFS 2003

The economic inactivity rate is higher for women than for men (68.4% and 31.6% respectively). The share of inactive men is higher in the 15-19 year old age group. According to the results of the LFS, this is due to the fact that the share of male students studying daytime and pupils of senior classes is higher than that of female. But it is probable that another reason for the difference is the obligatory military service for men. Beginning from the age group 25-29 years up to the age group 55-59 years, the inactivity rate for women is considerably higher than that for men. Since the average age at marriage for women in Azerbaijan is 23.7 years³⁷, it can be assumed that the

³⁵ http://www.un-az.org/undp/news/2005/18-02-2005/17-02-2005_eng.php.

³⁶ The working age for women is 15-56 years, while the working age for men is 15-61 years.

³⁷ Demographic Indicators of Azerbaijan – SSC. Baku – 2004.

majority of inactive women are those who are married. This may be because of choice, but may also be due to prevailing gender stereotypes which discourage women from working outside of home once married, particularly in rural areas.

As Table 2.20 shows, the overall share of individuals working at home amounts to 30.3% of economically inactive population (after pensioners (36.3%)), while the share of women in this category is 44.2% and that of men is 0%. This implies that the inactive women are mostly engaged in unpaid work, such as child caring, cleaning and other house work.

As in other countries of the world, women and men tend to dominate different sectors of the economy in Azerbaijan. However, the female-dominated sectors tend to have lower status and lower average wages. Among the employed women, the majority are working for state organisations (32.3%), while 31% are in agriculture, and 17% are involved in private entrepreneurship (without establishing a legal entity).

Women dominate sectors such as health and social services (76.5%), education (69.2%) and other community, social and personal service activities (57%)³⁸. It should be noted that there are no differences in wages for men and women working in the same position. However, as the following graphs show, the disparity is in the ratio of management position/higher paying jobs, which women and men occupy.

Table 2.19. Economic inactivity rate by age groups (%)

Age group	Male	Female
15-19	30.2	16.6
20-24	8.4	8.5
25-29	2.3	6.5
30-34	1.7	7.5
35-39	2.0	7.7
40-44	2.6	7.2
45-49	2.8	5.8
50-54	2.5	6.0
55-59	2.7	5.1
60-64	9.9	7.7

Source: LFS 2003

Table 2.20. Composition of the economically inactive population (%)

	Total	Men	Women
Students studying daytime, pupil of senior classes	21.8	33.5	16.4
Pensioners (by old age, service years, concessions)	36.2	42.1	33.4
Pensioners (disability)	8.2	15.3	5.0
Individuals receiving income from their property	3.6	9.1	1.0
Individuals engaged in house work, child care, and care of elderly/sick family members	30.3	0.0	44.2
Total	100.0	100.0	100.0

Source: SSC

As can be seen from Table 2.21, wages in the labour market are unequally distributed in favor of men. In some sectors, men's wages are 50% higher than those of women. This is not because men and women get paid different wages for the same jobs: it reflects rather the fact that women tend to get stuck in the lower-status jobs. Even though women traditionally dominate in such fields of economy as health and social services (the number of women is 5.6 times higher than the number of men) and education (2 times higher) the results of the sample survey clearly highlight the gender differences in earnings. According to the sample survey the ratio of average female-to-male earnings in health and social work and education are respectively 54.4% and 77.7%.

Due to the fact that the current legislation of Azerbaijan prohibits the use of women workers in labor intensive jobs, in hazardous work places, and also in under ground tunnels, mines, and other underground work, use of women workers for lifting or carrying of heavy items from one place to another (Art. 241 of Labour Code of Azerbaijan Republic), the number of men working in unfavorable conditions is considerably higher than that of women (see: Table 2.22). Although aimed at protecting women, this article is in fact discriminatory, since it potentially limits women's choice of jobs, and gives less protection to men from unsafe work conditions.

Unemployment: According to the 2003 LFS, the unemployment rate in Azerbaijan is 9.63% for men and 12.17% for women for the population of 15 years old and over.

³⁸ Women and Men in Azerbaijan – SSC. Baku – 2004.

Analysis of the education level of unemployed persons shows that the unemployment rate is higher both for men and women among those who completed full secondary education though the share of men is slightly higher (46.9 for women and 53.1 for men). The share of men among unemployed persons with higher education is 60.3%, while it is 39.7% for women respectively. Probably, one of the reasons for such gender distribution is the fact that the share of men with higher education is higher (for 1.5 times, according to the 1999 census data). It is also possible that women are willing to take on jobs with lower salaries and relatively short working hours due to the fact that usually they are responsible for the housekeeping and upbringing of children.

■ Education

It is important to understand the connection between gender equality, poverty and education. Families living in poverty are often forced to keep their children out of school, or choose which children are to be educated. This can lead to giving priority to male children, leaving girl children at a disadvantage and limiting their choices for their future. Lack of education for girls not only makes it more difficult for them to compete for more attractive and better paid jobs; it often results in early marriage as a means of survival for both family and girl.

One of the main policy directions of SPPRED is improvement in the quality of, and equity in access to, basic health and education services.

Education indicators are often used to look at differences in capabilities between population groups. Analysis of education indicators in Azerbaijan reveals some gender issues. At first glance there are no gender differences in the enrollment rates in primary and basic education. According to 1999 population census data the literacy level of country population of 15 years old and over is 98.8% (99.5% among men and 98.2% among women). But the existing data suggests that there are drop-outs at the level of basic and secondary education (see: Chapter on Education).

Table 2.21. Employment and wages by economic activity (gender disaggregated, October 2000)

Economic activity/profession	Share of women and men employed (%)		Women's wages as % of men's
	Women	Men	
Manufacture of nuclear fuel, refined petroleum products	37.6	62.4	75.2
Mining and quarrying	17.8	82.2	51.0
<i>extraction of crude oil and natural gas</i>	18.1	81.9	52.3
<i>services related to extraction of oil and gas</i>	13.7	86.3	44.3
Manufacture of chemicals and chemical products	36.8	63.2	58.3
Oil-chemical maintenance personnel	54.7	45.3	84.3
<i>manufacture of chemicals and chemical production</i>	36.5	63.5	55.0
<i>oil-chemical maintenance personnel</i>	58.9	41.1	84.1
<i>refined petroleum products</i>	37.3	62.7	65.6
<i>oil-chemical maintenance personnel</i>	51.0	49.0	81.8
Air transport	23.9	76.1	67.8
<i>stewardess</i>	69.4	30.6	102.3
Communication	43.2	56.8	89.2
Health and social work	84.9	15.1	54.4
Education	68.0	32.0	77.7

Source: SSC, sample survey for the October 2002

Table 2.22. Share of women and men working in unfavourable/unsafe work conditions in industry, 2003

	Share of total employed in industry (by sex)		Distribution by sex	
	Women	Men	Women	Men
Working in conditions not meeting sanitary-hygiene norms	5.5	14.7	13.6	86.4
Heavy labor	1.6	3.2	17.8	82.2
Working with equipment not meeting safety requirements	0.1	0.3	10.5	89.5

Source: SSC

The legal age of marriage for girls in Azerbaijan is 17, but there is evidence that some girls from traditional families, especially in rural areas, marry earlier due to the fact that their parents feel that early marriage frees them from the need to worry about their daughters' upkeep and future marriage prospects. Such girls will be unlikely to continue their schooling. Also, the fact that the 15-19 year old age group's fertility rates have tended to increase, means that some school-age mothers, married or not, drop out of school. While poverty may force girls to enter into early marriages, it can also force boys to engage in work activities to support their families, and therefore make them less able/likely to attend school. Thus, only an increase in household income levels can help ensure that the good inheritance of high enrolment rates, equal access to basic education, and good basic quality of education can be maintained.

As can be seen from Table 2.24, the share of women enrolled decreases, the higher the level of education. At the level of higher education, there is a clear gender imbalance (46.2% of those enrolled are women, 53.8% men); and among those registered for doctoral degrees, men clearly dominate (21.1% are women, 78.9% men).

This trend may be explained by the fact that families with low income levels tend to give preference to the education of boys, which leads to a drop in the enrollment rates of girls starting from upper grades of high education. There are usually two main factors influencing such preferences. Firstly, families may want to protect the boys from military service (those enrolled in full time higher education have the right to defer military service); and secondly, as mentioned above, girls tend to marry earlier, especially if they come from low-income families. Girls constitute 69.5% of students in specialized secondary educational institutions. Due to the fact that mid-level personnel are trained in those schools and those professions are less prestigious, such courses are not so popular among boys. Thus, girls' choices/opportunities with regard to education influence their future job and earning potential tend to re-enforce the existing gender segregation in the labour market.

Table 2.23. Unemployment by sex and education level (distribution by % and number)

Level of education	Women	Men	Sex distribution	
			Women	Men
Higher education	6.8	9.6	39.7	60.3
Incomplete higher education	1.3	0.5	71.4	28.6
Second level (college) vocational education	11.3	6.0	63.3	36.7
First level (school) vocational education	2.8	5.3	32.6	67.4
Full secondary education	67.7	70.6	46.9	53.1
Basic secondary education	9.4	7.3	54.4	45.6
Primary education	0.6	0.6	47.6	52.4
Without primary general education	0.1	0.1	50.0	50.0
Total, %	100.0	100.0	48.0	52.0
1000 person	194.2	210.5		

Source: LFS 2003

Table 2.24. Gender distribution of pupils by types of education at the beginning of the 2003/2004 academic year (%)

Type of educational institutions	Women	Men
General education schools (state and non-state institutions)	48.0	52.0
Vocational schools and lyceums ³⁹ (first level vocational education)	30.5	69.5
Specialized secondary educational institutions ⁴⁰ (second level vocational education)	69.5	30.5
Higher educational institutions (state and non-state institutions)	46.2	53.8
Number of organizations with postgraduate courses (at the end of 2003)	27.2	72.8
Number of institutions with doctor's degree (at the end of 2003)	21.1	78.9
Total	48.2	51.8

Source: SSC

³⁹ At the end of 2003.

⁴⁰ State and non-state institutions.

Gender education has a key role to play in preventing gender inequality, whether in the short term, through awareness-raising, or in the longer term, by challenging the assumptions and attitudes underlying this inequality. The Azerbaijan Center for Gender Researches under the Western University was created in June 2000 with the aim of carrying out research on gender as well as integrating gender issues into scientific researches and educational programmes. The Center implemented the Project “Interdisciplinary programmes on gender education in the higher education system of Azerbaijan” and gender courses were subsequently included in the curriculum of the Western University, Baku State University, Khazar University and the Academy of Public Administration under the President of Azerbaijan.

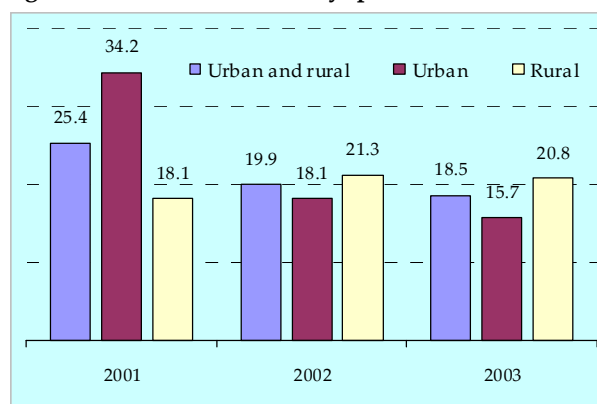
■ Health⁴¹

Achieving gender equality requires guaranteeing women’s and men’s equal rights to protect their health. In 1997 the Law “On Protection of the Population’s Health” was adopted and according to this law men and women have equal rights to protect their health. Some articles of this law devote special attention to the reproductive health of women. However, there are some problems in this sphere, especially in rural areas.

According to administrative data, the mortality rate for women is higher in rural areas (in 2003 – 5.9 deaths per 1000 population compared to 5.5 in urban areas), but for men the mortality rate is higher in urban than in rural areas (6.5 and 6.3 respectively). Maternal mortality is also higher in rural areas, and this could influence the overall female rural mortality rates.

As can be seen from the Figure 2.24, maternal mortality levels have been decreasing in recent years. However, in 2002-2003 the maternal mortality rate for rural areas increased. There may be a number of reasons for this increase. First of all, lack of necessary equipment and qualified personnel in rural areas should be mentioned. Another factor affecting maternal mortality is the increase in the number of childbirths not assisted by skilled health personnel. Due to the long distance from some of villages to the nearest hospital, bad roads and transport system as well as lack of financial resources, some women in rural areas have to deliver their children at home. All these reasons affect infant mortality as well, which is also higher in rural areas.

Figure 2.24. Maternal mortality (per 100000 live births)



Source: SSC

Another issue is that even though total fertility rate over the country tends to decrease within registered marriages, the only age group where fertility rate has been increasing is for 15-19 years old, especially in rural areas (Table 2.25).

Since the beginning of the transition period, the number of children born out of wedlock has increased. Since 1990, this indicator 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. When the bride or groom is below the legal marriage age, only a religious ceremony that is not recognized by the law can be conducted.

The analysis of data on live births by unmarried women disaggregated by regions shows that the highest rate of children born out of wedlock is found in the following regions of Azerbaijan: Gadabay – 28%, Imishli – 25.6%, Goranboy – 23.4%, Jalilabad – 23.2%, Masally – 21.1%, Samukh – 20.1%, Balakan – 17.7%, Astara – 17.6%, Lankaran – 17.3% out of the total number of live births⁴². Although there is no data on early marriages disaggregated by

⁴¹ For additional information see: Chapter on Health.

⁴² Demographic Indicators of Azerbaijan – SSC. Baku – 2004; p. 223-233.

regions, it is hypothesized that the highest rate of early marriages is also in those regions. This can be detrimental for girls because of early pregnancy, which increases the health risks for themselves and their children, the loss of educational opportunities, and lack of legal protection in the case of divorce.

■ *Insecurity and Violence against Women*

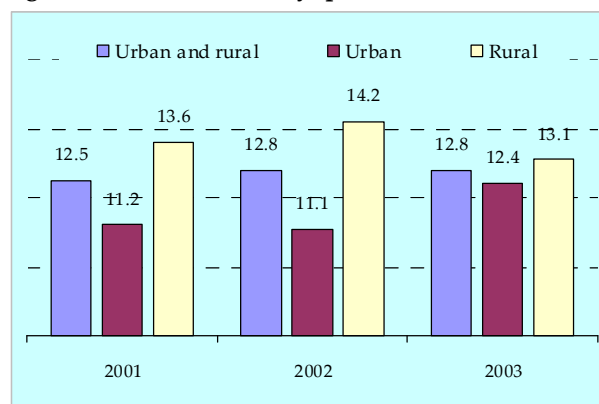
Gender based violence constitutes a particular public problem. Violence against women and girls occurs in different forms in all countries and all sections of the society. It is important that women are aware of potential risks, and thus better equipped to avoid them. It is also important that they know their rights, and which institutions they can turn to for help.

Although the Constitution of Azerbaijan, national legislation and the international treaties guarantee protection of women from violence, these documents are not always applied in practice. Regular official data on gender based violence is not available and one of the reasons is that not all victims turn to the law enforcement bodies. Thus, only a negligible part of cases on gender-based violence is registered officially, as the victims are afraid of public criticism and uncertain about where to apply for necessary assistance.

In order to prevent violence against women it was decided to focus on the following issues within the framework of SPPRED: adopt and implement international conventions related to human trafficking, including women and child trafficking; provide medical, psychological and other kinds of consultation to women subject to domestic violence and in the situation of armed conflicts and to offer legal advice to them.

Although regular official data on gender based violence is not available, the results of studies conducted in this field indicate that violence against women is perpetrated in Azerbaijan⁴³. According to the 2001 RHS, estimates of the percentage of women who have suffered verbal abuse is 30%, physical abuse - 20% and sexual abuse is 10% (85% of which is marital rape). In the USAID Gender Assessment for Azerbaijan, it was found out that the concept of domestic violence was not well understood or widely discussed, but commonly accepted as a traditional norm within the general population. The same assessment also found that restrictions on movement and employment, early marriage, forced sexual intercourse, and overall lack of basic understanding of human rights were prevalent. The International Rescue Committee also carried out an assessment on women and violence in Azerbaijan in 2004, and found that the police force had undergone minimal training on violence against women; and that most medical employees were not

Figure 2.25. Infant mortality (per 1000 live births)



Source: SSC

Table 2.25. Live births by age of mother (% of live births)

Age groups of mothers	2000	2001	2002	2003
Total				
15-17	1.6	1.6	1.7	1.7
18-19	8.2	8.1	8.3	8.8
Urban places				
15-17	1.3	1.4	1.4	1.4
18-19	7.0	6.9	7.0	7.3
Rural places				
15-17	1.8	1.8	2.0	2.0
18-19	9.0	9.2	9.4	10.1

Source: SSC

Table 2.26. Number of children born without registered marriages (% of total number of live births)

	1990	1999	2000	2001	2002	2003
Urban and rural areas	2.6	6.4	5.4	6.6	7.6	10.5
Urban areas	3.6	8.6	7.7	8.6	9.0	11.2
Rural areas	1.8	4.9	3.6	5.0	6.5	9.9

Source: SSC

⁴³ IRC Assessment on women and violence in Azerbaijan, 2004. USAID Azerbaijan, Gender Assessment for USAID/Caucasus/Azerbaijan. Baku, 2004.

trained on how to handle cases of violence against women. The Women Crisis Center and the Center for Psychological Counseling are two NGOs which currently offer assistance to the victims of violence. Unfortunately, these services are functioning only in Baku and are not available for the victims of violence in the regions.

The occupation of 20% of the territory of Azerbaijan by neighboring Armenia, and the existence of almost one million IDP and refugees in Azerbaijan led to significant economic and physical insecurities for both men and women. Women and children constitute the majority of refugees and IDPs, and having lost their homes, jobs and families are among the victims who are experiencing the greatest suffering. Within the framework of the UNIFEM regional project on "Women in the South Caucasus for Conflict Prevention and Peace Building" the "Coalition 1325" was initiated which unites prominent women from political parties, academia, mass media and NGOs to provide better conditions for implementation of the main objectives and to disseminate the ideas of 1325 UN Security Council Resolution⁴⁴ on security, peace and democracy. One of the main achievements of this project is the increased interest and the knowledge among youth in conflict resolution and peace-building, courses on which are being offered in 7 institutions of higher education in Azerbaijan.

Trafficking in human beings is a relatively new problem in Azerbaijan. Although it is difficult to obtain accurate statistics, available evidence suggests that an increase in trafficking for purposes of sexual exploitation has occurred during last years. It should be noted that Azerbaijan is mostly the transit country for trafficked persons because of its favorable geographic location. The transparency of borders, lack of knowledge and experience of law enforcement bodies, as well as the fact that 20% of Azerbaijani territories, which include 132 km of our state border, remain under occupation and, as a result, are not controlled by Azerbaijan – all these create good conditions for perpetration of crimes such as trafficking in persons, drugs, weapons etc. Azerbaijan does not have special legislation on trafficking. Among the relevant international legal documents it can be noted that in 2000 Azerbaijan joined the UN Convention against Transnational Organized Crime and in 2003 ratified the Protocol to the Convention to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children. On October 12, 2004, the Parliament of the Republic of Azerbaijan ratified the Final Protocol of the Convention for the Suppression of Trafficking in Persons and of the Exploitation of Prostitution of Others (The Convention for the Suppression of Trafficking in Persons and of the Exploitation of Prostitution of Others was ratified by Azerbaijan in 1996). On 6 May 2004 the National Plan on Combating Trafficking in people was adopted by the Decree of the President of Azerbaijan Republic in order to protect and defend the victims of trafficking, to implement measures aimed at their rehabilitation and reintegration into society, as well as to make amendments in the relevant national legislation.

■ *Empowerment – Women in the Decision-making process*

Evidence suggests that women are often more active in supporting laws benefiting women, children and families. But around the world women are still largely absent from national parliaments. Only 15 countries have met the Beijing Platform for Action target of 30 percent of seats held by women. In another 24 countries women held between 20 and 29 percent of seats⁴⁵.

In Azerbaijan one of the three deputy speakers of the National Parliament (Milli Mejlis) is a woman, and overall 14 out of 125 members of the parliament are women (11.2%)⁴⁶. According to the information provided by the SCWI, the share of women in national government at the decision-making level is 3.4% (there is 1 woman – the head of the SCWI out of heads of 29 state ministries and committees).

Although women's representation in the country's decision-making level is still low, there have been some improvements since 1998. According to official data 14% of judges in Azerbaijan are women. The first national ombudsman, appointed in 2002 by the Parliament of Azerbaijan, is also a woman.

⁴⁴ Security Council Resolution 1325 was passed unanimously on 31 October 2000. Resolution (S/RES/1325) is the first resolution ever passed by the Security Council that specifically addresses the impact of war on women, and women's contributions to conflict resolution and sustainable peace. Source: <http://www.peacewomen.org/un/sc/1325.html>.

⁴⁵ Situation as of 28 February 2005; Source: <http://www.ipu.org/wmn-e/classif.htm>.

⁴⁶ One woman was elected in the result of by-election to the National Parliament of Azerbaijan held on October 19, 2004.

According to the results of the last municipal elections held on December 17, 2004, women make up 4.08% of those elected, and 5% of the candidates standing for election. Thus, it is clearly important to raise the awareness of electorate on the importance of participation of women in the decision-making process, as well as to strengthen the capacity of those women who can stand for election.

Table 2.27. Share of women and men among elected members of municipalities

	Person	Percentage
Men	19516	95.92
Women	830	4.08
Total	20346	100.00

Source: Central Election Commission, 2004

Chapter 3. Economic Development and Employment Growth

Fiscal Policy

■ *Background*

One of the main strategic goals of the SPPRED is to maintain economic stability. With a view to achieving this goal objectives have been set in the Policy Matrix of SPPRED within the framework of fiscal policy development:

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

During 2003-2004 the following measures were implemented towards achieving the above-mentioned objectives:

■ *Increasing the effectiveness of the budget process*

“Regulations on Budget preparation and execution” were prepared in 2003 and approved by the Resolution of the CM in May 24, 2004 in order to strengthen enforcement of the Law on the “Budget System”. This Law, which is in line with international standards, was approved in July 2, 2002 to improve budget forecasting and to rationalize budget expenditure.

312 bln. AZM (301.4 bln. AZM forecasted) were transferred to the budget to consolidate extra-budgetary funds of about 3000 budget organizations into the State Budget in 2003. Extra-budgetary spending for 2003 was 293.1 bln. AZM. Extra-budgetary funds of budget organizations were consolidated into the revenues and expenditures of the state budget for 2003-2004 and these funds were included in the state budget in 2005. According to the forecast of 2004, extra-budgetary revenues were defined at the amount of 350 bln. AZM and made up 314.4 bln. AZM over the year. Extra-budgetary spending for 2004 was 279.8 bln. AZM. The State Budget is forecasted to receive revenues of 366 bln. AZM through the extra-budgetary revenues in 2005.

■ *Preparing mid-term consolidated budget forecast*

For the first time in 2003 revenues and expenditures of the consolidated state budget for 2004-2007 was prepared. Furthermore, the consolidated budget for 2005-2008 was developed in 2004 and included into the Budget Envelope for 2005. These actions, which aimed at overall calculation of available public funds with consideration of the acceptable level of fiscal deficit, were taken in line with the Law on “Budget System”. In addition, the cost estimates for poverty reduction measures were prepared in collaboration with appropriate central executive agencies in the course of preparing draft state budgets for 2005 and subsequent 3 years.

■ *Oil and gas revenues management*

A “Long-term strategy for oil and gas revenues management” to cover 2005-2025 was approved by the Decree of the President of AR of September 27, 2004. The strategy aims at achieving a balanced development of the country’s economy through targeting oil and gas revenues, which are increasing year-by-year, to the non-oil sector, and ensuring effective management and use of revenues. The strategy identifies the following as the main priorities: implementing measures to promote the development of non-oil sector, regions, small and medium entrepreneurship, infrastructure, and poverty reduction; strengthening the intellectual and technological basis and addressing other social problems.

■ *Improving tax and customs legislation*

Additions and amendments to the Tax Code (with 127 additions and amendments including consolidation and renumbering) were approved by the President of AR in November 28, 2003. The new Tax Code came into force in January 1, 2004.

The Decree of the President of AR dated February 12, 2004 “On enforcement of the Law of AR “On changes and amendments to the Tax Code of the Republic of Azerbaijan” was approved. The following regulatory documents were prepared and adopted by the CM to ensure the efficiency of the Decree and improve tax payment mechanisms: “Methodical guidelines for the registration of taxpayers in the state tax bodies”, “Methodical guidelines for application of control-cash register in the state tax bodies”, “Rules of including tax payers and VAT payers in the state register”, “the procedure of providing taxpayers with VOIN⁴⁷”. In addition, draft “Criteria for identification of large taxpayers and enterprises with special regime” has been agreed with the MoED and Ministry of Finance and approved by the CM. To improve the Tax Code and rationalize the revenues part of the State Budget, the Law of AR “On changes and amendments to the Tax Code of the Republic of Azerbaijan” was approved by the President on December 3, 2004. The Law came into force with the relevant Presidential Decree of December 29, 2004. According to the changes made to the Law, all vehicles will pay a road tax depending on the size of engine (except for the agricultural machinery and vehicles owned by budget-funded organizations) starting from 2005.

The Milli Majlis approved the “Kyoto Convention on Simplification and Harmonization of Customs Procedures” in December 9, 2003. The final stage of transition from specific duties to ad valorem duties was completed with the relevant Resolution of the CM dated April 20, 2004 and the Republic of Azerbaijan has completely joined the “Kyoto Convention on Simplification and Harmonization of Customs Procedures”. Preparatory work has continued to adjust the Customs Code of the Republic of Azerbaijan to this Convention. Electronic software (for electronic declaration of goods) based on modern information technologies have been developed and introduced in several customs bodies to support simplifying and adjusting customs procedures to international standards.

■ *Increasing tax collections and social insurance collection*

Registration of non-recorded businesses has been improved to increase collection of taxes and social insurance contributions through legalizing non-registered economic activities. Administrative protocols have been drawn up for 2800 people in 2003 and for 2793 people in 2004. Fines amounting to 240 mln. AZM in 2003 and to 284.3 mln. AZM in 2004 have been imposed and relevant measures have been taken for the registration of non-recorded businesses.

■ *Reducing income tax*

According to amendments to the Tax Code approved in November, 2003 free taxable monthly income level was raised from 100000 AZM to 150000 AZM with transition from a 3-staged tax system (12%; 25%; 35% - 100000; 1000000; 5000000 AZM) to a 2-staged tax system (14%; 35% -150000; 3000000 AZM) and average tax rate was set. It came into force from January 2004.

⁴⁷ Tax payers identification number.

■ *Reducing taxes on businesses to promote private sector development*

Profit tax from enterprises, which had been reduced from 27% to 25% since January 2003, has been further reduced to 24% since January 2004 in line with the Law "On the State Budget for 2004 of the Republic of Azerbaijan". The Law on exemption of agricultural producers from all taxes (excluding land tax) for additional five years (2004-2008) came into force from January 2004 through the relevant Presidential Decree of November 28, 2003.

Simplified tax turnover has been increased from 30 mln. AZM per quarter to 123.75 mln. AZM (22500 times of the nominal financial unit⁴⁸) per quarter to expand coverage of the simplified tax system. The rate of this tax is presently 4% in Baku and 2% in other regions. The tax is now applied also to physical individuals (alongside legal entities). Simplified taxpayers have been exempted from profit (income) tax, property tax (excluding individuals) and value added tax.

In 2003, possibilities of moving from 6-staged customs tariffs to 4-staged customs tariffs were analyzed and specific customs duties for some imported goods were substituted with ad valorem duties. Based on the relevant Resolution of the CM some groups of goods were excluded from the VAT exemption list.

■ *Improving transparency of tax and customs systems*

Capacity building and transparency in the management of the tax system has been ensured through raising the professional skills of employees; and study of international experience by expanding cooperation with foreign organizations and countries and public awareness measures. Thus, about 281 tax inspectors in 2003 and 385 tax inspectors in 2004 attended training courses on various topics at the Training Center of the Ministry of Taxes. Up to 30 tax employees received training abroad in 2003. Cooperation agreements were signed with Austria, Great Britain, Norway, Russia, Turkey, Ukraine, Moldova, Kazakhstan, Georgia, Uzbekistan, and currently relevant measures are being taken under these agreements. Cooperation with the Inter-European Organization of Tax Administrations, US Department of Treasury, IMF, WB and UN has continued.

Technical Assistance⁴⁹ to Modernize the Tax System, which has been provided since February 2004 within the framework of the National Plan of Actions of EU TACIS, aims at training tax employees and taxpayers, expanding services to taxpayers and introducing internal communication technologies. The TA project also envisages preparation of brochures for raising awareness of taxpayers of their own rights and responsibilities, Explanatory Guide to the Tax Code and to create a website for foreign investors. Installation of a computer network has started to improve the communication between the Ministry of Taxes and its regional departments.

During the year 2003, about 700 workshops, briefings and 8500 mobile awareness campaigns on tax legislation and its execution were delivered to taxpayers by tax administration bodies. In total, about 30000 taxpayers participated in these measures. Such measures were successfully continued in 2004. Thus 1148 briefings, seminars, and 10800 mobile awareness campaigns were delivered, meetings were held with taxpayers and many questions of them on tax legislation were answered. In 2003-2004, 14 "Tax News" information bulletins were published and distributed to local tax bodies in order to explain the recent additions and amendments made to the Tax Code. Interviews and speeches were made, announcements and advertisements broadcasted through the Mass Media at national and local levels. A website (<http://www.taxes.gov.az>) of the Tax Ministry and a "hot line" service ("195") have been created and are operating in the Ministry of Taxes. These services enable taxpayers to obtain information on taxes and tax legislation. Interviews about the tax legislation and reforms of the tax system are regularly broadcasted through TV programmes such as "Tax News", "Economics" and "Where does income flow?" running on AzTV1, "Space" and ANS TV channels. Many questions of taxpayers find their answers in "Questions and Answers" column of the official "Taxes" newspaper.

⁴⁸ A nominal financial unit equals to 5,500 AZM.

⁴⁹ Project cost is 1.3 mln. Euros.

Customs employees also attended training courses, workshops in relevant areas arranged by international organizations in 2003. Thus, newly recruited employees of the SCC are involved in a 4-month advanced training in the Training Center of the Committee. All the information, government documents related to customs, new legislative and regulatory framework on tax rates and duties are regularly published on the website (www.az-customs.net) and in "Customs News" newspaper of the SCC. "Information stands" have been created in customs bodies for quick provision of business people with customs-related information. The U.S. government assisted in capacity building of the SCC, providing the necessary equipment, arranging training courses and etc.⁵⁰

Draft customs agreements have been prepared and submitted to relevant state agencies in line with procedures of preparing them for signing with Turkey, Poland, Romania, United Arab Emirates, Pakistan and the Russian Federation. A "Customs Agreement between GUUAM member states" was signed at the Summit of heads of the states in Yalta, in July 2003. The Technical Assistance Program in cooperation with the International Agency for Nuclear Energy has purchased portable and stationary radiation control devices of different production marks and delivered them to border customs posts. These devices are being successfully introduced in the border customs posts. The third meeting of the Customs Cooperation Committee on "Simplification of regional trade and customs cooperation" Programme was held in December 1-3, 2004 in Baku. The meeting was organized by the SCC with financial support from the ADB. Representatives of customs organizations in Azerbaijan, China, Mongolia, Kazakhstan, Uzbekistan, Turkmenistan, Kirghysistan and Tajikistan and experts from the ADB participated at that meeting, which aimed at developing regional customs cooperation. A new Regional Training Center of the World Customs Organization was launched in Baku. Customs employees actively attend the training courses arranged at the Center with participation of international experts.

■ *Reducing social insurance contributions to encourage employment*

According to the amendments to the Law on "Social Insurance", compulsory social insurance rate for employers has been reduced from 29% to 27% from January 2003 to encourage the creation of new jobs. The State Budget for 2005 envisages a further reduction of this rate to 22%.

■ *Financing the implementation of poverty reduction priorities*

Considerable efforts have been made to increase the wages of public sector employees. According to the relevant Presidential Decrees, a 50% increase was applied to the monthly wages of the following budget-funded sectors in line with the Tariff Scheme in 2003: education, health, science, social security, sport, youth, culture, art, mass media, agriculture, forestry, fishery, amelioration and water industry, ecology and hydrometeorology.

In line with the Presidential Orders of June-August, 2004, monthly wages of: civil and military servants of the Ministry of Defense; employees of the agencies under the Ministry of Internal Affairs; military and civil servants of the Ministry of National Security; military servants of the information security and anti-terror structures; military and civil servants of the Internal Troops under the Ministry of Internal Affairs, military and civil servants of the State Border Service, civil servants, senior staff of the executive powers, military and civil servants of the Special State Security Service, special ranked staff and civil servants of the SCC, were increased⁵¹.

Capital expenditures for 2003 and 2004 were 895.3 bln. AZM and 990.8 bln. AZM respectively, which are 377.6 bln. AZM and 473.7 bln. AZM more compared to 2002. A total of 1494.4 bln. AZM was forecasted in the State Budget for 2005 for capital expenditures.

⁵⁰ The U.S. embassy presented 30 pagers, 40 detectors and 10 digital photo cameras to the customs bodies to reveal radio-active substances.

⁵¹ An increase from 1,5 to 3 times was applied to the monthly wages of the staff of the Ministry of National Security, Ministry of Defense and the Ministry of Internal Affairs.

In line with the overall budget increase, spending of the state budget for payment of utilities, other goods and services increases year-by-year. Thus, in 2003 and 2004 the spending for these purposes were 839.9 bln. AZM and 990.8 bln. AZM respectively. It is expected to increase this amount up to 1497 bln. AZM in the Budget for 2005.

Over the last period, funds were allocated from the state budget to finance implementation of the policy measures envisaged in the education and health sections of the SPPRED⁵².

While in 2003 economic expenditures of the state budget was 12146 bln. AZM (including 50 bln. AZM for SME development) in 2004 this amount increased up to 1443.8 bln. AZM (including 100 bln. AZM for SME development). In this regard, 2038.3 bln. AZM (200.2 bln. AZM for SME development) were envisaged in the 2005 State Budget.

Since the end of 2004, work on the SPPRED Financial Plan has been launched with support from the WB's Swiss Grant Fund, with a view to improving the costing of policy actions envisaged in the SPPRED Policy Matrix. The main objective of this plan is to review the policy actions, to find out available cost estimates, to get agreement on these estimates with relevant agencies, to schedule them by years, to identify possible sources of financing, to prepare necessary documents and to assist the government in informing the donor community on the financing of SPPRED.

■ *Improving control over the use of budgetary resources*

With a view to improving management of the State Treasury, tender proposals on establishing a management information system have been received by the System Integrator and a contract has been signed with the winner organization. In line with computerization of the Treasury, equipping of pilot areas is ongoing.

The Ministry of Finance prepared an action plan of comprehensive inspections and took additional measures to improve control over the use of budgetary resources as well as to recompense for non-rational use of the budgetary resources.

The Protocols have been submitted to the MF for setting off the implicit subsidies from the State Budget to "Azerenergy" and "Azerkimya" for the amount they paid to the SOCAR to purchase black oil, gas, electricity and naphtha in 2004 through the debts of the SOCAR to the State Budget. This was in line with the aim of recording implicit subsidies in the State Budget.

■ *Improving and simplifying norms and standards*

Efforts are being made to develop the norms envisaged in the "Plan of Actions on improving scientifically justified norms to prepare the state budget, and budget system in line with the modern requirements". The Plan was approved by a Resolution of the CM issued in July 2, 2004.

■ *Improving mechanism for debt management*

Improvement of the legal-normative framework to ensure appropriate level of debt and debt services through upgrading mechanisms of debt management has continued. In this regard, a draft Law on "State Debt and Guarantee" has been prepared and submitted to the Presidential Office.

The main provisions of the Regulations of "External Loans Registry in the Republic of Azerbaijan" were reflected in the Article VIII – "State Debt and Services" of the Regulations "On Preparation and Execution of the State Budget" approved by the relevant Resolution of the CM.

⁵² MTEF, Education and Health sections provide more detailed information.

Proposals have been prepared by the MoED to improve appraisal of the projects subject to State Guarantee and submitted to the CM.

Monetary Policy and Development of Banks

■ *Background*

The following objectives have been set in the Policy Matrix of SPPRED within the framework of monetary policy and banking sector development:

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

During 2003-2004 the following measures were implemented towards achieving the above-mentioned objectives:

■ *Maintaining inflation*

The policy of not using the NB's loans to cover the budget deficit was continued during 2003-2004. The inflation rate for 2003 was 2.2%, which was in line with the forecasted rate (2-3%). However, in 2004 annual inflation rate in the country increased slightly. This was the result of an increase in total expenditure (consumption, investments and public expenditures) in the economy. This increase was due to a broader use of oil revenues for social and economic development and increased state financial support to the development of private and non-oil sectors, as well as implementation of large-scale social programs. Thus, the inflation rate for 2004 was 6.8%.

During 2003-2004 the NB kept on increasing efficiency of the monetary policy tools and introduced repo transactions and transactions with long-term state bonds under the strategy of transforming open market transactions into a principal tool of monetary policy. NB started issuing its own short-term notes taking into account availability of the limited market for short-term state bonds in order to regulate the liquidity of the banking system. Thus, a total of 182.2 bln. AZM have been sterilized through the short-term notes so far. Pawnshop and overnight crediting mechanisms, as well as termed foreign exchange transactions were continued, use of compulsory manat reserves for daily clearing was allowed. For the purpose of forecasting the short-term liquidity of the banking system a "Short-term liquidity forecast" has been prepared and introduced. In this regard, a regulatory framework for a number of new tools (rediscount, deposit etc.) has been created.

■ *Improving exchange rate policy*

The practice of accumulating oil revenues primarily in the SOFAR has continued and the NB made purchase-oriented interventions in the currency market to prevent appreciation of the real exchange rate of the national currency - Manat. This is a continuation of a policy on sterilizing oil revenues through the SOFAR and other methods. At the same time, additional funds received by the State Budget due to the higher oil prices in the world market than forecasted were transferred to a special account.

The volume of monetary reserves of the NB increased 15.82% as of the end of 2004 compared to the beginning of the year (USD 757.1 mln.) and was USD 876.86 mln. A total of USD 62.6 mln. of reserves of the NB were directly spent for the repayment of the principal amount and the interests of the debt on the IMF loans in 2004. As a result, a relative increase was more than USD 182 mln.

In 2003, the rate of AZM against USD changed by 30 AZM or 0.6 in percentage, so it increased from 4893 AZM to 4923 AZM. The rate of AZM against USD changed by only 0.43% in 2004. While this rate was 4923 AZM at the beginning of 2004, it was equal to 4903 by the end of the same year. The rate decreased to 4890 AZM during the first two months of 2005.

More liberal normative documents on currency supervision adopted by the NB (including "Regulation on Currency Transactions Regime for Residents and Non-residents in the Republic of Azerbaijan", which envisages an increase in advance payments) in accordance with the amendments to the Law on "Currency Regulation". Thus, NB made a decision on lifting limits in the transfer of advance payments to foreign countries for import contracts. At the same time, possibilities for liberalization of capital flow are being explored.

The Decree of the President of AR "On changing the nominal value of banknotes and the scope of prices (denomination) in the Republic of Azerbaijan" was issued in February 7, 2005. The aim of the Decree is to form appropriate rate of manta, which is one of the state attributes, against the rates of the world's leading currencies; adjust the design, protection and the nominal structure of national banknotes to the international standards; highlight national and historical traditions on the banknotes; improve money turnover; optimize the scope of the rate and prices, and simplify the accounting and settlement system. According to the Decree, transition to the new AZM will be made from January 1, 2006. Thus, 1 AZM will be equal to 5000 AZM. AZM will be in circulation together with the new AZM during 2006. Full transition to the new AZM is expected in January 1, 2007. It is planned to put new banknotes equivalent to 1, 5, 10, 20, 50, 100 AZM and coins into circulation.

■ *Institutional development of banking system*

The terms and conditions of Azerbaijan Micro and Rural Finance Development Project funded by the ADB have been discussed and initial agreement reached with the MoED. The project envisages provision of micro-credits to the population and businesses with poor mortgage and borrowing capacity and to set up community based micro-credit institutions. The relevant legislation has been analyzed within the framework of the project and a new draft Law "On Micro-finance Institutions" has been prepared by the relevant working group and submitted to the Milli Majlis. Work on the above-mentioned Law, which will improve the legal and regulatory framework of the micro-finance sector, is about to finish. A comprehensive survey of the rural financial market covering 34 banks, 14 MFIs and 18 credit unions has been conducted. Following the survey a Strategy for Micro-Finance Development and a Credit Proposal for Micro Finance Development in Azerbaijan have been drawn up. A Memorandum of Understanding for a loan of USD 25 mln. has been signed between the Republic of Azerbaijan and ADB. The process of registering micro-finance institutions and credit unions has been considerably simplified and the license fee has been reduced from 27.5 mln. AZM to 605000 AZM. Micro-Finance Bank expanded its activities. The bank opened 2 new branch offices in 2003 and allocated credits of 18 bln. AZM to 2000 people in total. In 2004, credits of 30.7 bln. AZM were allocated to more than 2700 clients. Volume of credits in the private sector increased 54.3% compared to 2003 and was equal to 79.4% of overall crediting. Furthermore, the number of micro-credit institutions licensed by the NB increased up to 15.

Changes and additions have been made to the Regulations of allocating NFSE resources in order to stimulate allocation of credits in rural areas and these regulations were approved by the Presidential Decree in May 4, 2004. This enabled non-bank credit organizations to place NFSE resources. Availability of branch offices in the regions has been determined as one of the main criteria in the selection of agent-banks, which would finance SME development. The number of authorized credit agencies for using the NFSE resources was increased up to 25, 20 out of which are banks and 5 are non-bank institutions. To ensure social and economic development of the regions and dynamic growth of entrepreneurship, the Decree of the President of AR "On additional measures on state financial support to entrepreneurship" was signed in March 1, 2005. It aims at improving the use of NFSE resources. The Decree also envisages an increase of the maximum limit for financing the large-scale credit projects to the level of USD 1000000, which was fixed at USD 100000 earlier. In addition, the repayment period for large-scale credits to be extended to entrepreneurs was prolonged from 5 to 8 years. Changes made to the rules of

extending large-scale credits aim at creating a more enabling environment for the entrepreneurs wishing to carry out the projects, which require more investments.

NFSE resources amounting to 100 bln. AZM were provided to 1338 entrepreneurs in 53 cities and regions through the authorized banks and credit unions over the last year. In addition, credit fairs have been arranged by a number of banks during 2004. This kind of fairs have taken place in 8 regions of 7 economic regions of the country and more than 1000 entrepreneurs have been provided with credits of about 50 bln. AZM.

By the end of 2004, the number of bank branches reached 350, which is 14.7% more compared to the beginning of the year (305). 160 or 48% of the bank branches are based in the regions.

Agrarian Credit (a new non-bank institution for finance and credit), which has been created as a result of merger of non-bank Agrarian-credit Close-end Stock Company and non-bank Agrarian-credit Fund Ltd., has been licenced by the NB and started functioning at the beginning of 2004. This institution, which possesses large financial resources and has a broad regional network, plays an important role in regional economic development, especially in crediting of agricultural production and processing. Within the framework of the EU-funded "EU TACIS National Plan of Actions" (1 mln. Euro) Project for continuous support to the development of Agrarian Credit Fund finished in May 2004 and a Statement of Agreement on a follow-up project was sent to the EC.

Changes have been made to the Regulations "On Prudential Norms for Economic Regulation of Credit Unions". The aim of this is to expand the credit unions' network, to rationalize the activities of credit unions and to increase their opportunities for resource utilization. In 2003, 13 credit unions were provided with licenses, and another 14 credit unions received licenses in 2004. Thus, the total number of credit unions provided with a license so far reached 55. 6 out of the newly established credit unions are based in Nakhchivan AR.

■ *Restructuring and privatizing state-owned banks*

The Decree of the President of AR "On additional measures to deepen reforms in finance and banking system in the Republic of Azerbaijan" was issued in March 1, 2005. The Decree aims at regulating the process of gradual reduction of the state share at the state-owned banks (International Bank and Capital Bank⁵³). According to this Decree, state shares in the authorized capital of these banks will be privatized by dividing them into parts or issuing additional shares. The Decree also set out tasks for the relevant executive bodies as increasing competitiveness of the national banking system, concluding agreements with international financial consultants and international rating agencies which will ensure at least two sovereign ratings and update the country's credit rating.

■ *Developing private banks*

While in 2003 the authorized capital of banks increased 18.3%, this figure was 41.3% in 2004 and reached 1051 bln. AZM as of January 1, 2005. This increase was 47.5% per bank on average. The NB made a decision to increase the total capital requirement for banks to USD 3.5 mln. as of January 1, 2005 and to USD 5.0 mln. as of January 1, 2006.

Participation limits for foreign banking capital were fully eliminated by the NB from January 1, 2004. As a result, the conditions for competitiveness of the banking services market improved and for the first time foreign capital was invested in a local private bank (Uni Bank) in 2003. Currently possibilities are being explored to license one more bank with foreign capital.

■ *Increasing the regulatory capacity of the NB*

According to the report, which summarizes evaluations conducted in line with the Financial Sector Appraisal Programme of the WB and IMF, a programme has been developed to implement recommendations aimed at

⁵³ Former United Universal Joint-Stock Bank.

improving banking supervision in Azerbaijan. The Programme has been launched with the help of foreign technical assistance.

According to the Decision of the Board of NB dated July 26, 2004 changes were made in the organizational structure of the banking supervision block in the NB. In line with the above changes, a new Department for Supervision over Credit Institutions was established on the basis of the Department for Supervision Methodology and Licensing and Department for Supervision over Credit Institutions. The newly established department unites all the management structures related to banking regulation and banking development within a single unit. As a result of the above measures, risk-oriented banking supervision, which is based on a "prior warning" principle, has led to improved supervision of banking activities.

Over the last period, work was continued to improve banking supervision and to evaluate its conformity to the international standards through technical assistance from the USAID.

A new Law "On the NB of the Republic of Azerbaijan" was approved by the President on December 10, 2004.

■ *Developing banking infrastructure*

The Law "On Banks" was adopted (by the Milli Majlis in January 16, 2003) and came into force through the Presidential Decree of March 26, 2004. Currently, efforts are being made to implement the tasks specified in the Law. A number of draft legal and regulatory documents were prepared and submitted to the Presidential Office for approval. A specific plan of actions for each bank was developed in line with implementation of the law.

The new draft Law "On Collateral" reflecting more comprehensively the issues related to creating a centralized and simplified register of collaterals has been prepared by the NB and submitted to the CM. The draft Law "On Deposit Insurance" has been prepared and is currently being discussed with the IMF.

Efforts have been continued to set up a Processing Center for card payments as a following step of establishing a system of electronic payments. An executive agency for setting up the Processing Center has been identified through a tender. The work based on the contract signed with the executive agency has been completed. The scope of activities of the Azerbaijan International Processing Center and Clearing System for Small Transactions has been further expanded. In consequence, speed and volume of inter-bank transactions significantly increased. State Programme on Development of the National Payment System in the Republic of Azerbaijan (2004–2006) was developed and approved in December 9, 2004.

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

Creation of a Centralized Credit Register that will keep a credit history of legal entities and individuals is completed with technical assistance from the WB. The relevant document, which will regulate its functioning have been drafted and submitted to the Presidential Office in line with the Law "On Banks". The Credit Register will be introduced once the relevant regulatory framework comes into force.

Encouragement of non-cash settlements was further enhanced and the percentage of cash turnover was decreased 3.4% in 2003 compared to 2002. In this regard, the working group established within the NB intensified its activities in 2004. The relevant measures were prepared by the working group and submitted to the Presidential Office. Due to the implementation of these measures, decrease in the share of cash turnover became a continuous process. The share of cash turnover decreased 8.9% items in 2004 compared to 2003.

Draft legal and regulatory documents on the introduction of corporate management standards in commercial banks have been prepared by the NB. Institutional measures are taken in commercial banks to establish risk

regulation systems in line with international standards following the formation of relevant legislation. The KfW has already started rendering long-term technical assistance to 4 commercial banks in the introduction of the above standards. As well as, the IFC has supported the initiative of specific technical assistance to banks and started selecting banks for this purpose.

Investment Policy

■ *Background*

The following objectives set within the framework of the investment policy are in line with one of the strategy goals of the Program – to create an enabling environment for the growth of income-generating opportunities.

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

The implementation status of the policy measures within the above-listed objectives in 2003-2004 is as follows:

■ *Improving the legislative framework*

With a view to further improving the legislative framework of the investment climate, the Law "On State Registration of Legal Entities" was adopted. A draft Law "On Special Economic Zones and Regulation of their Activities", draft "Antimonopoly Code" and draft normative documents on improvement of state financial support to entrepreneurship have also been prepared. A draft Law "On Investment Activities" has been agreed upon with the relevant authorities and experts of the WB and submitted to the Presidential Office. The system of licensing has been radically changed and the number of activities that require a license was reduced from 240 to 30. Depending on the type of activities the number of documents required for obtaining a license has been minimized; the amount of the state duties for getting a license has been reduced 2.5 times and the term of licenses prolonged. A single State Register has been created to register licenses.

■ *Institutional improvement of investment process*

In order to improve the institutional framework for investment through holding joint discussions on the problems with participation of public and private sectors and carrying out relevant actions to reduce barriers, a Council for Entrepreneurs was established in 2002. Local and foreign entrepreneurs attended the meetings arranged by the Council in 2002-2004 and had the opportunity to discuss the progress achieved in developing the market economy and the challenges with the President of AR.

Relevant documents are being prepared for capacity building of the Economic Policy and Forecasting Department of the MoED through the EU TACIS. The implementation of the "State Program on Small and Medium Enterprises Development in the Republic of Azerbaijan" has continued in close cooperation with the donor community and a new "Azerbaijan Investment Promotion and Advisory Foundation" has been established in 2003.

The Project for Technical Assistance to the Ministry of Transport was launched in 2004 with a view to developing and implementing structural reform of the transport sector. The above-mentioned project is funded by the EU TACIS National Plan of Actions. The objective of the project is to assist the Ministry of Transport in preparing comprehensive plans to develop the transport sector in Azerbaijan; to complete preparation of the TOR for a

follow-up Project and to improve the Ministry's institutional capacity through setting up a committed, purposeful, free market-oriented and well-trained administrative staff in line with modern international standards.

The Regulation of the Ministry of Communications and Information Technologies was approved through a Presidential Decree of August 10, 2004. The President of the Republic approved the Law on "Postal Communication" in June 29, 2004 and signed an Order for its execution in August 31, 2004. A hot-line service (499-08-98) was created at the MICT in order to solve problems and difficulties of the population related to communications. In addition, preparation of the project for restructuring the national postal service, which is planned to begin in 2005, is ongoing in collaboration with the WB. The above-mentioned Project covers the issues of developing banking and financial services in postal service and radical changes, computerization of postal departments and rehabilitation of rural postal services. In January 2005, the Board of Directors of the WB approved the Project for Development of Financial Services, amounting to USD 17.75 mln.⁵⁴ Under the implementation of the project (2005-2008) it is expected to finalize structural changes and improvements in the "Azerpocht" and creation of a national payment system.

The consulting company engaged under the IBTA of the WB has been cooperated within the preparation of proposals for social protection of the labor force laid-off due to structural changes and privatization in the energy sector. The consulting company has prepared a final report in this regard. With a view to improving the energy sector, the MFE was cancelled and the Ministry of Industry and Energetics was established on its base in line with the relevant Order of the President dated December 6, 2004. The functions of the MoED in the area of industrial policy have been transferred to the newly established ministry.

To continue transition to the international accounting standards (IAS) in private organizations, the EU-funded Project for "Introduction of IAS in Azerbaijan" was launched at the beginning of 2003. In order to increase the effectiveness of project activities, a Coordination Group was established with involvement of stakeholders and the charter of the Group was prepared. A Strategy for the introduction of national accounting standards (NAS) has been developed and 8 of the 32 NAS have been finalized. A training plan has been developed to simplify the drafting of new standards and relevant training courses started. The Law "On Accounting", according to which, the transition to the IAS should be completed by January 1, 2008, was approved by the President of AR in June 29, 2004. A Technical Assistance Agreement on Accounting and Audit Reform Project was reached between the IBRD and the Republic of Azerbaijan in November 10, 2004.

■ *Improving management of investment process*

The relevant documents are being prepared for drafting "PIP of the Republic of Azerbaijan for 2005-2008". This is in line with implementation of the respective paragraph in the Presidential Order "About Execution of the Law on State Budget for 2004", which was issued in December 27, 2003. Proposals are being prepared with the PROGECO SRL (Italian Company) for capacity building of the Department for Public Investments within the MoED.

The Investment Map of the Republic of Azerbaijan has been developed. It reflects investment projects to be implemented in each of the country's regions and sources of financing for these projects. This is especially important for attracting investments to the regions.

The procedure of licensing of bonded warehouses was restored by the Resolution of the CM dated February 10, 2004 and work has started in this regard. A bonded warehouse has been constructed and put in operation in Khachmaz border-crossing point. It is envisaged to continue establishing bonded warehouses in other border points as well.

■ *Increasing the effectiveness of the privatization process*

⁵⁴ USD 12.25 mln. is the IDA credit.

In 2003, six state enterprises (Mughan hydropower plant, Shaki hydropower plant, Diplomat Ltd, Baku Steel Company, Azerelektoterm and Dashkasan Ore-Dressing Plant) have been privatized through investment competition. In 2004, procurement contracts were signed with the winners of investment auctions conducted for the sale of 7 enterprises, including Dashkasan Ore-Dressing Plant, Garadagh Rubber Compound, Baku Chinar Refrigerators, Baku Electro-automatic, Sumgait Household Chemistry, Neftchala Iodine and Bromine JSC and Sports Complex and Stadium under the Gabala Executive Power.

State shares in four joint ventures were privatized in 2003: Khazar-III, Diplomat, Azvirt and Bakcell. Three of them have been purchased directly by a foreign partner, but the state share of Diplomat JV. has been privatized through investment competition. Applications have been made to the Ministry of Justice to exclude joint ventures, which are non-active and non-recorded in the tax bodies, from the state register and taking them off the registration. Draft regulations have been prepared to regulate activity of state representatives for effective management of state shares in joint ventures. The state shares of 2 joint ventures - Grand Handling Company and Airport Gate were privatized in 2004.

Consulting companies have been involved for restructuring the gas, water supply and sewerage sectors based on the international experience within the framework of WB IBTA project. This is carried out in line with privatization and transfer of country's infrastructure to the management by private sector. Currently, the inception reports produced by the consulting companies are being reviewed with appropriate agencies. A pilot project has been launched together with a consulting company for implementing similar measures in the heating sector. At the same time, the work is continuing with the consulting company to develop the regulatory framework of the infrastructure sector.

According to the Presidential Order of March 19, 2003, several enterprises of machine-building and conversion sectors have been declared open to privatization. Proposals have been prepared and submitted to appropriate agencies to privatize health, education, culture, sport, pedigree breeding, as well as some infrastructure facilities.

The Law "On State Registry of Real Estate" was adopted and the "Regulations of Keeping State Registry of Real Estate" was approved by the Presidential Decree of October 14, 2004.

Relevant proposals have been prepared with the consultants involved by the GTZ to improve the legislation on abolishing or if necessary selling unsuccessful enterprises through declaring them bankrupted. Proposals have been prepared to revitalize the enterprises of special importance for the country's economy before their privatization. Besides, lists have been prepared and submitted to the relevant agencies for setting off the enterprises' debts to the state budget, extra-budgetary state funds, state-owned banks and to the enterprises, where tariffs are regulated by the state. At the same time, in order to make relevant payments, 5 bln. AZM of the proceeds from privatization have been transferred to the SSPF.

In order to support the privatized enterprises, NFSE allocates loans to joint stock companies through the authorized banks. It is expected to further increase this support. With support of GTZ, technical assistance has been rendered to a number of enterprises in preparation of business plans and also legal assistance has been provided for investigation of court appeals against enterprises.

■ *Developing entrepreneurship in the regions*

A broad range of discussions through round tables and seminars with coverage of all regions, have been regularly organized. In order to increase public awareness of the business people, a website on "State Support to Entrepreneur" (www.sahibkar.biz) has been created, and a "hot line" service (4971332) organized at the MoED to respond to any business-related questions and prevent unnecessary interventions in entrepreneurial activities. Currently, efforts are being made to produce an economic TV programme with a special focus on development of entrepreneurship on the state TV. In addition, booklets on normative-legal documents and business planning have been published, a handbook entitled "Development of Entrepreneurship in Azerbaijan" has been prepared and a series of books entitled "Basics of entrepreneurial rights" have been published.

An example of normative-legal documentation to establish entrepreneurs' associations has been prepared and delivered to entrepreneurs. Methodical assistance has been rendered to create entrepreneurs' associations in 43 cities and regions.

The Training Center, which will have a regional network to provide entrepreneurs with business advisory services, necessary information, marketing, training and other services on a regular and systematic basis, has already been officially registered. Negotiations with international organizations are ongoing to support the Center's activities. It is envisaged, to create the regional branches of the center as a next step once the Training Center in Baku is fully functional.

■ *Increasing competitiveness of domestic production and export capacity of the country*

In order to continue the process of admission to the WTO through fair trade negotiations, a State Commission consisting of high-ranked representatives of the government agencies has been formed by the Resolution of the CM in August 22, 2003. The Commission is responsible for preparing documents on the country's admission to the WTO and the proposals agreed with the relevant government agencies as well as ensuring a common economic policy in the negotiations with the WTO. In this regard, the Commission has established 9 working groups in various areas, as well as, a Secretariat, which will effectively coordinate activities of the Commission and working groups. A Concept Paper on Admission to the WTO and an Action Plan have been drafted by the Secretariat.

Within the framework of the technical assistance project funded by the United States Trade and Development Agency a number of seminars have been held to discuss the possible impact of Azerbaijan's admission to the WTO on the country's service market. The relevant documents have been prepared for submitting to the WTO Secretariat for the purpose of holding the second meeting of the Azerbaijan Working Group on the WTO. Furthermore, a study of the experience of a number of countries in admission to the WTO has continued. A delegation from the Republic of Azerbaijan attended WTO Cancun Ministers Conference in September 10-14, 2003. 6 members of the Negotiation Group on Azerbaijan's admission to the WTO attended seminars in Japan for negotiations with the WTO in March 15-26, 2004. The Group had meetings with the Ministry of Foreign Affairs, Customs Services and Ministry of Economy and Industry of Japan. A two-day seminar was held in Baku Business Center with participation of experts from the UN Commission for International Trade Law (UNCITRAL) in April 26-27, 2004. In order to prepare for admission to the WTO regular meetings have been held with a number of international organizations and comments have been received from international experts in this regard. Within the framework of the Project, 5 documents have been prepared and submitted to the WTO following their approval at the Geneva meeting conducted by the Commission on Azerbaijan's Admission to the WTO in June 21, 2004. With regard to completion of the TA Project in April 2004, a number of changes to the Grant Agreement were signed in July 14, 2004 in order to prolong the project period for a year more. Currently, work is being carried out to prepare Market access proposals, Plan for legislative changes, Table of services of the WTO, and draft documents, which will be submitted to the WTO Secretariat. Work on establishing a website to reflect the measures implemented towards Azerbaijan's admission to the WTO has continued over the reported period.

The Tariff Council functioning since January 31, 2002 has organized several meetings on tariffs of various services during 2003: urban and rural telecommunication services; services of the Department for Technical Inventory and Registration of Property Rights; wholesale water price from Jeyranbatan reservoir; duties for goods and transport means in customs warehouses and in temporary storage warehouses and for customs control; for use of ambulances from First Aid Motor Depot of Baku Health Department; tariffs for "Oil and gas and products made of them" (of the SOCAR, "Azerbaijan Gas Processing" and "Azerigas"). At the same time, draft tariff proposals for economically justified Azerenergy tariffs have been prepared. According to the Regulation of the Council, the Secretariat is based in the MoED to co-ordinate the following working groups: on prices for oil and gas products, on wholesale and retail tariffs for electricity, on customs duties, on education and healthcare services, on law enforcement authorities, on environment, natural resources and agriculture, on transport services, on communication services, on water and utilities, on inventory, leasing, pricing and related technical spheres, on

patent, information and publicity services. In total, more than 150 specialists from various ministries and organizations have been involved in the working groups.

In order to increase capacity in the Tariff Council, meetings have been held with international consulting companies at the Secretariat of the Tariff Council under the IBTA Project of the WB. Members of the Working Groups under the Secretariat attended a number of workshops in 2003-2004, received advice from the experts of above companies and discussed international experience.

In order to protect competitive domestic production and to create an enabling environment, the Tariff Council has prepared proposals to identify and change customs tariff rates and duties, introduce customs tariff concessions, regulate list of goods exempted from VAT and investigate the possible negative impact caused by the import of goods. Based on these proposals, the CM issued the Resolutions in October 3, 2003 and February 21, 2005 to make amendments to "The rates of customs duties for the goods imported to the Republic of Azerbaijan".

Informative materials about country's export capacity have been placed on the "State Support to Entrepreneur" website of the MoED. Furthermore, Fund for Support to Export has been set up within the MoED based on the Presidential Decree "On Measures to speed up the social and economic development in the Republic of Azerbaijan", dated November 24, 2003. The Charter of the Fund has been approved and submitted to the Ministry of Justice for registration. Work is ongoing to establish the Supervisory Board of the Fund. It is envisaged to implement the Project for Establishing the Fund for Support to Export together with the UNDP. The relevant proposals have been prepared and submitted to the appropriate agencies to stimulate production of goods in line with international standards and export to international markets.

There has been a strong focus on crediting production and processing industry with a view to preventing the import of various industrial and agricultural products, increasing variety of exported goods and adjusting their quality to the international standards. The crediting of production and processing industry made up 89% (or 82 bln. AZM) of business projects funded by the NFSE, 84% (or 77.3 bln. AZM) of which fall to the share of regions. The first technical and economic justification of establishing an Industrial Township together with the Industrial Development Organization (UNIDO) has been finalized and the relevant project has been presented in Baku and Sumgait. The CM issued a Resolution on the allocation of land for Industrial Townships in Khyzy and Absheron regions in April 6, 2004. The work is ongoing to realize the above-mentioned project, which is of great importance for industrial capacity, export capacity of the economy in the country and employment in the neighboring regions. The comments of UNIDO towards the next steps are currently under review. The project development team visited Turkey to familiarize with the issues related to the establishment and management of the Industrial Township in July.

The First International Investment Conference in Azerbaijan was held in May 2003 with participation of over 600 business people from companies of 30 countries, as well as representatives of the state organizations and other stakeholders. Over the last period, the Government undertook regular measures to develop business relations with foreign countries. Many business people from Azerbaijan attended an exhibition and international conference in Austria, economic forums in Moscow and Yekaterinburg, an inter-state exhibition-fair in Kiev and the Black Sea Countries' exhibition in Trabzon. They also visited the People's Republic of China many times. At the same time, numerous meetings have taken place between the foreign business delegations visiting Azerbaijan and national business people. An international conference on "Development of Leasing Mechanisms - Development of Leasing in Azerbaijan" was held on May 6-7, 2004 with support from the IFC. The German-Azerbaijan Economic Forum was organized in Stuttgart, Germany with participation of around 40 entrepreneurs from Azerbaijan in April 22-26, 2004. This aimed at supporting the expansion of Germany-Azerbaijan economic relations, attraction of German investments and integration of the local entrepreneurs into European markets. A meeting of the Azerbaijan-Britain Board of Trade and Industry was held in Baku with participation of about 20 British and about 20 Azerbaijan companies in June 28, 2004. Representatives of the Board and some British companies paid visits to Ganja and Tovuz on June 29, 2004 and became familiarized with the locally based enterprises. A delegation consisting of representatives from 10 Singaporean companies and the Singapore International Organization visited Baku, had relevant meetings and signed cooperation agreements. In March

2004, a Memorandum of Cooperation was signed between the Business Consulting Services Programme of the EU and the Fund. A Conference on Trade and Investment in Azerbaijan, was held in London at the EBRD Headquarters in December 14, 2004 with participation of about 300 people including high officials and business people from Azerbaijan, as well as government and business representatives of Great Britain and other European countries. The objective of the Conference was to attract potential investors from Great Britain and other European countries to Azerbaijan, in particular to the non-oil sector and also, to raise awareness of the European businesses and European community about Azerbaijan. As a result of targeting activities of the Government of Azerbaijan, the conference, which was held in the capital of Italy Rome at the end of February 2005 succeeded in attracting additional investments to the country and establish business relations between the businessmen of the two countries.

A Baku Business Center has been established in the National Seaside Park in 2003 with support from the UNDP. The Center, as part of the SME information system, plays an important role in increasing sales of the goods produced by local SMEs from the regions and finding new markets for them. Several business meetings have been already organized between local entrepreneurs and business delegations from a number of countries at the Center. To improve business relations with potential countries, local business people have attended several exhibitions, international trade-fairs, conferences and economic forums in several countries during the last year. Also, visits of foreign business people to Azerbaijan from several countries and their meetings were organized in 2003.

In order to form an effective quality control system for goods and services, the guideline documents of the national certification system have been adjusted to the requirements of the international standard "ISO-9000". Draft regulations on "Import of Goods Subject to Obligatory Certification to the Republic of Azerbaijan" and "Recognition of Foreign Certificates" have been prepared to ensure the safety of goods imported to the Republic of Azerbaijan and subject to obligatory certification. Furthermore, the laboratories established in Nakhchivan and Ganja-Gazakh economic regions and Jalilabad region have been supplied with the necessary equipment in order to support this kind of measures. An on-stream analyzer has been purchased for detection of toxic elements in food products and relevant experts have been involved to help with its introduction. The specialists recruited to the laboratory based in Jalilabad attended special training and received instructions on safety rules. It is planned to establish a laboratory for testing the quality of food products in Guba-Khachmaz economic region in 2005. The establishment of this kind of laboratory in Shaki-Zagatala economic region is expected in 2006. The agenda for a Scientific and Practical Conference on "Problems in improving the quality of wheat products" has been prepared and preparatory work for the organization of the Conference completed. An information booklet on "Quality management for wheat products" has been published and copies of the booklet have been distributed to the Regional Development Division and Department for Antimonopoly Policy for official use and delivery to entrepreneurs. In order to increase awareness of entrepreneurs, work has started on the preparation of an informative booklet on potato disease in bread and its prevention. It is also envisaged to produce an informative booklet on "Quality management of alcoholic and non-alcoholic drinks". A draft State Program for Development of Standardization, Metrology and Protection of Industrial Property for 2004-2008 has been developed and submitted for consideration in an appropriate way.

Energy policy

■ *Background*

In order to improve the energy supply of the population, increase existing energy potential and carry out institutional reforms in the energy sector, the following objectives has been set in the Policy Matrix of the SPPRED:

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

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

■ *Improving energy supply to the population*

To ensure fiscal transparency and efficiency in the energy sector, the experience of making indirect subsidies explicit through recording them in the State Budget has been continued. Thus, the 2004 State Budget figures are 1850 bln. AZM for Azenergy, 326.7 bln. AZM for Azerigas, 155.25 bln. AZM for Azerkimya and 2331.9 bln. AZM for the SOCAR. The relevant figures for Azenergy and Azerigas in 2003 were 1500.8 bln. AZM and 97.8 bln. AZM respectively. Indirect subsidies of 1470 bln. AZM was envisaged in the state budget for 2005 only for Azerenergy. Allocation of indirect subsidies from the state budget to Azerigas and Azerkimya was stopped.

Relevant measures were carried out towards improving the system of payments for energy consumption and imposing sanctions for non-payment by consumers.

The "Measures to regulate the issues related to the problems of enterprises in fulfillment of budget commitments as a result of mutual debts (non-payments)" are mainly reflected in the Programme for Strengthening Financial Discipline in the Energy Sector, which was approved by the Presidential Decree of March 25, 2002. These measures are also reflected in the related decisions of the MFE and other agencies engaged in fuel and energy issues. Mutual debts between the SOCAR, "Azerenergy" and "Azerigas" are calculated on a quarterly basis, the relevant protocols are compiled and the debtor/creditor debts of these structures are reduced through implicit subsidization from the State Budget.

The Ministry of Finance approves limits for budget organizations on an annual basis and distributes these limits to the organizations for implementation. The energy consumption norms for unsettled refugees are provided to them by the SCRDP and a little amount is paid in line with the limits above.

The CM issued a Resolution "On Regulation of the Prices for Crude Oil and Oil Products within the Republic" in February 10, 2003 based on the proposals of the Tariff Council. This was in line with the implementation of the Presidential Decree of March 25, 2002. Based on the above-mentioned Decree of the President the following schedule for the dynamics of payments for energy by the state enterprises was defined as follows: 20% - 2002, 30% - 2003, 45% - 2004, 65% - 2005, 80-100% - 2006.

To improve management of energy supply, regional electricity distribution networks have been transferred for a long-term management by "Barmek" and "Bayva" electricity distribution companies. To improve collection rates and ensure efficiency in energy consumption, 97270 (by Barmek) and 29000 (by Bayva) electricity meters were installed for

Table 3.1 State Budget Subsidies for the fuel and energy sector, 2003-2004

<i>Organization</i>	<i>2003</i>		<i>2004</i>	
	<i>plan</i>	<i>fact</i>	<i>plan</i>	<i>fact (6 months)</i>
Azerenergy	1500.8	1820.6	1850.0	1058.4
Azerigas	97.8	151.8	326.7	134.7
Azerkimya	--		108.0	52.5
TOTAL	1598.6	1972.4	2284.7	1245.6

consumers in 2003. Installation of gas meters has continued and starting from 2003 around 20 thsd. meters have been installed for population subscribers and 2 thsd. for other consumers' groups. In general, gas meters have been provided to 9% of rural subscribers and 15% of Baku subscribers so far with support from the WB. A special programme has been developed by Azerigas and it is envisaged to install 150 thsd. gas meters in Baku, Sumgait, Ganja, Ali-Bairamly cities, Absheron and Gusar regions in 2005. A tender was announced for the procurement of 150 thsd. gas meters of various types in line with the Law "On State Procurement".

MFE and related organizations conduct regular energy-saving campaigns through the Mass Media.

“Azerigas” submitted proposals to the NB on introduction of the card payment system for utilities. In this regard, a draft resolution has been agreed upon. A foreign consultant has been involved in the process of establishing the Card Payment Processing Center in the NB. The project team and the foreign consultant prepared a set of tender documents, as well as technical specifications. A Tender was arranged in line with the two-step bidding procedures of the WB and TietoEnator Financial Solutions (Latvia) won the tender. A contract was signed with the winner in March 30, 2004.

■ *Implementing structural reforms*

According to the Presidential Decree of January 24, 2003 on restructuring the SOCAR, 3 departments of the Company have been declared open to privatization, 2 production units and 2 departments have been merged; 18 former units have been structured to 8 units. Besides, enterprises within the Company with the same production specificity and profile, which had been part of separate units before, have been merged under the same structural units in line with the Order of SOCAR dated 31 January, 2003. Based on the Order of SOCAR dated September 23, 2004, some of the excavation units were transferred to oil and gas extraction departments as shops. As a result, 148 former units, enterprises and structures of SOCAR have been restructured to 51. Structural reforming is currently going at all managerial levels of SOCAR.

SOCAR tries to address the social problems of the employees working in the enterprises and organizations, which were formally under its structure and since privatized as a joint venture. Thus, the employees, who queue up for buying an apartment, are kept registered as an employee of the SOCAR in order not to lose their place in the queue. The employees under pension age working in the enterprises to be privatized have the rights to use free services of the hospital under the SOCAR until the enterprise is fully privatized. They receive assistance from the Trade Unions, including organization of holiday leave.

Proposals on restructuring the gas sector were prepared and submitted to the relevant agency. A consulting company has been hired to implement the relevant tasks in line with the international standards.

■ *Developing carbohydrate capacity*

To ensure a stable increase of oil and gas exploration, to exploit the remaining reserves in old fields through developing and implementing geological-technical and technological measures, 1020 geological measures (806 were planned) have been undertaken and consequently, an extra 489.7 thsd. tons of oil (expected 266.4 thsd. tons) has been produced by oil and gas extraction departments of SOCAR in 2003. In total, 1071 geological measures (800 were planned) have been undertaken and consequently, an extra 356.4 thsd. tons of oil (expected 270 thsd. tons) was produced by the oil and gas extraction departments of SOCAR in 2004.

311 non-active wells (planned 353 wells) have been re-activated by oil and gas extraction departments and 109 non-active wells (planned 64 wells) by joint ventures. Consequently, an extra 187.4 thsd. tons of oil (expected 119.6 thsd. tons) was produced. In 2004, 250 non-active wells (planned 349 wells) were re-activated by oil and gas extraction departments and 92 non-active wells (planned 116 wells) by joint ventures. Consequently, an extra 110189 thsd. tons of oil (expected 118566 thsd. tons) was produced by oil and gas extraction departments and an extra 31556 thsd. tons of oil (expected 31915 thsd. tons) was produced by joint ventures.

By the end of 2003, the total number of well reserves of SOCAR had been increased to 6793 (86 wells more compared with January 1, 2003); the number by oil and gas extraction departments and joint ventures were 5567 and 1226 respectively. During 2004, the total number of well reserves of SOCAR had been increased to 6904 (111 wells more compared to January 1, 2004); the number by oil and gas extraction departments and joint ventures were 5663 and 1241 respectively.

4.7 mln.m³ water has been pumped into the layers in 2004 (in 2003 - 5.4 mln.m³) resulting in an extra 193.7 thsd. tons of extra oil (in 2003 - 232 thsd. tons) produced from the facilities under pressure by the oil and gas extraction departments of SOCAR. An extra 46.1 thsd. tons of oil was produced as well as a result of introducing other techniques (III pressure methods) to increase oil production of layers.

■ *Introducing efficient price policy*

The MFE and structures, engaged in fuel and energy issues have worked in regular cooperation with the Tariff Council on the calculations, instructions, and proposals concerning the state regulation of the prices for energy carriers. New proposals have been exchanged. During the meetings on prices of natural gas for SOCAR, Azerbaijan Gas Processing OJSC and "Azerigas", the members of the working group on oil and gas (including products made of them) of the Secretariat of Tariff Council discussed the relevant proposals and made comments to be reviewed at the meeting of the Tariff Council. Furthermore, draft economically justified tariffs for "Azerenergy" have been worked out. The tariffs for gas and oil products were again regulated by the state in November 2, 2004. While the price for 1 m³ gas was increased from 36 AZM to 81 AZM in November 2004, it increased 4 times in March 1, 2005 and was equal to 236 AZM based on this regulation. To reduce the negative impact of the energy price increase on poor households, a working group was established and discussions conducted with technical support from the WB in 2003. This was done within the joint technical assistance project on Poverty and Social Impact Analysis (PSIA). The working group brought together all the stakeholders of the process. During the first half of 2004 these measures were continued and a final report of the analysis prepared.

In order to set norms for efficient utilization, losses and technological consumption of fuel and energy resources in the overall structure of the SOCAR, Azerenergy, Azerigas and Azerkimya, as well as in other fuel and energy organizations (despite the property form), the CM issued a Resolution in January 23, 2004. In line with the Resolution, sector working groups have been established in the MFE, and a report on the implemented activities has been submitted to the CM. Consequently, a Resolution was issued by the CM in November 23, 2004. According to the Resolution, an Action Plan has been approved to improve efficiency of utilization and decrease losses and technological consumption of fuel and energy resources. Implementation of the plan has been assigned to the MFE.

■ *Improving the energy supply system*

Efforts are being made to create technical opportunities to synchronize the energy systems of the Russian Federation, Republic of Azerbaijan and Islamic Republic of Iran. In this regard, an agreement has been achieved and a Tripartite Commission established.

In line with the Presidential Decree of October 21, 2004 the State Programme for Use of Alternative and Recoverable Sources of Energy was approved. The MFE is the Programme Coordinator according to the above Decree. Currently, work within the framework of the Programme is underway.

Labor Market and Employment

■ Background

The following objectives set in the Policy Matrix of SPPRED within labour market and employment section, and are in line with one of SPPRED's strategic goals to create an enabling environment for the growth of income-generating opportunities. Since information on most of the implemented policy actions are reported in the investment policy section of this chapter, main focus in this part is on measures implemented within the framework of active and passive labour market:

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

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

■ Encouraging balanced employment in non-oil sector in the regions

Within the framework of SPPRED, a new State Programme on social and economic development of the regions for 2004-2008 was prepared in 2003 and approved by the Presidential Decree in February 2004. The main goal of the Programme is to create 600000 new job places for the mentioned period through promoting non-oil sector development in the regions. As of the end of 2004, about 170 thsd. new jobs (90 thsd. of them were permanent) were created in the country, 85% of which fall to the share of the regions.

As is mentioned above, the micro-finance environment was fully analyzed within the framework of micro-finance sector development project through the technical support of ADB.⁵⁵ During 2003, the process of registering micro-finance institutions and credit unions has been simplified and the license fee has been reduced. Furthermore, with a view to improving activities of the NFSE for better provision of micro-crediting schemes for various social groups, willing to do business, the President signed a Decree "On Improving the Use of Resources of the National Fund for Support to Entrepreneurship" in May 4, 2004. According to the Decree, a new Regulation of the Fund's Selection Committee has been prepared and officially registered. The Committee has arranged two meetings and selected 4 additional authorized credit organizations (3 banks and a credit union).

Guba Support Center for Woman Entrepreneurs has been supported, within the framework of creating centers for support to woman and family entrepreneurship in the regions of the country. As mentioned in the investment section, the Training Center, which will have a regional network to provide entrepreneurs with business advisory services, necessary information, marketing, training and other services on a regular and systematic basis, has already been officially registered. Negotiations with international organizations are ongoing to support the Center's activities. It is envisaged, to create the regional branches of the center as a next step once the Training Center in Baku is fully operational.

Regional development plans of the Guba-Gusar-Khachmaz regions (northern region) and Lankaran-Astara regions (southern region) have been prepared with technical support from the Israeli Government (MASHAV) in 2003. This was in line with the aim of producing comprehensive regional and sectoral development plans within the framework of SPPRED. The project for preparing the regional development plan of Nakhchivan AR was completed in 2004.

⁵⁵ The monetary policy section of this chapter provides more detailed information about the project.

■ *Helping to match labour supply with demand*

Proposals were submitted to the CM on changing the profile of several vocational schools to bring them in line with labour market demand; on their restructuring through closing down or merging the relevant schools; on improving the physical infrastructure to meet modern standards, selecting the vocational schools with better physical infrastructure to transfer them into vocational lycea, organizing general education classes within the lyceums and making amendments to the "Classification of specialties and specialization in vocational education". In cooperation with the GTZ, the status of the network of vocational schools in the country has been studied, prospects for further development of this network have been discussed and series of seminars have been held for teachers and masters. Currently, the relevant proposals are being prepared jointly with the German experts to develop the network of vocational schools and bring it up to the modern standards.

In order to reduce unemployment among women, regular training courses have been arranged in the regions. It is expected to continue with this initiative. A joint project has been launched with the GTZ to promote traditional handicrafts as well as woman entrepreneurship (carpet-weaving) in the regions. The experts have already visited Shaki, Guba, Gabala and Ismayilly regions.

Technical assistance to develop a strategy to improve the system of career counseling, vocational training and re-training is envisaged within the framework of the EU TACIS National Indicative Program for 2004-2006, which was approved in 2003.

Regular training courses on dressmaking, carpet weaving, hairdressing, confectionary and weaving were organized for women in the different regions by the State Employment Service (SES) in 2003. More than 50% of the women, who completed these courses, were provided with appropriate jobs. In 2003, 70 new jobs were created for people with special needs in the Sabunchu district of Baku, Ali-Bairamly city and Khachmaz regions. Several pilot projects have been developed for establishing small enterprises and farms and also improving the infrastructure in the regions with the highest concentration of refugees and IDPs over the reported period. The pilot projects have been submitted to the international organizations.

In order to identify current situation of the education for the elderly in Azerbaijan, labor markets in Baku, Sumgait, Ganja and Khachmaz were studied in cooperation with the Institution for International Cooperation of the German Association of National Universities in 2004. In this regard, relevant proposals have been prepared.

The Resolution "On extra-wage payments to the employees working in the organizations based at a certain altitude from the sea level with consideration of the altitude level" issued by the CM in August 22, 2002. The list of mountainous regions has been approved through the Resolution of the CM dated February 15, 2003.

■ *Ensuring civil service wage reform*

The proposals on improving labor remuneration and increasing the tariff wages of the civil servants, which were prepared in cooperation with the Ministry of Finance (MF) and Ministry of Justice, have been submitted to the CM by MLSP. This was in line with the Resolution of the CM "On introduction of changes to several resolutions of the CM with regard to approval of the Set of Classifications of Administrative and Supportive Posts" dated September 26, 2003. The above-mentioned Resolution was adopted to ensure effectiveness and implementation of the Law "On the Civil Service".

The MLSP prepared and submitted proposals to the MF for increasing minimum wages in the Republic and regulating the tariff wages of employees working in the following budget-funded sectors: health, social security, sports, youth, culture, arts, mass media, science, education, agriculture, forestry, fishery, amelioration, water industry, environment and hydrometeorology. The proposals aim at removing the shortcomings in labor remuneration in the above-listed sectors through real budget opportunities. These are in line with the Presidential

Decree "On Measures to speed up the social and economic development in the Republic of Azerbaijan", dated November 24, 2003 and the Resolution of the CM, dated November 27, 2003.

■ *Facilitating re-entry of the unemployed into the job market*

Preparation of the country's employment strategy has started in 2003 with technical assistance from the UNDP and ILO. In this regard, a working group with representatives from relevant ministries and international organizations has been set up and various discussions organized. The sector and situation analysis have been made to include social and economic situation, employment and labor market, education as well as links with the social protection system.

In order to improve SES's management, and abolish duplication of staff units, since February 1, 2004, 141 staff units have been reduced and 447 staff units remained as a result of the structural reform conducted according to the Resolution of the CM dated November 8, 2003. Also, in order to improve provision of services to people applying to SES in line with the international standards, a programme "Improving training and methodological framework and technical programming of the vocational education for jobseekers and the unemployed" was approved under the Project for Development of the National Social Protection System, signed between the Government and UNDP in July 18, 2002. Currently, the first phase of Programme implementation has been completed and the second phase is under finalization. As a first step towards establishing the Regional Training Center, preparations are ongoing to create a Model Training Center in Baku.

The structure of the SES has been improved and the scope of activities of the Labor Exchanges in Baku and Sumgait further expanded. Labor exchanges were established in the country's major industrial cities - Ganja and Mingachevir, in 2004. In addition, career-counseling services were arranged within these labor exchanges.

■ *Regulation of labor relations*

Sector and collective agreements, which are essential parts of the social dialogue, were concluded last year and registered at the local structural divisions of the State Labor Inspection. The Main Collective Agreement between the CM, Trade-Union Confederation and the National Confederation of Entrepreneurs (Employers) for 2001-2003 approved by the Resolution of CM in June 2, 2001 was in force in 2003 and it is expected that this work will continue under the General Collective Agreement for 2004-2005.

A Seminar on Responsibilities of employers in labor relations and liabilities of parties for violation of labour legislation has been conducted in Zagatala by the MLSP and National Confederation of Entrepreneurs (Employers). The seminar was attended by over 60 businessmen and employers. During the seminar, presentations were made about state policy on labour safety and liabilities of employers, developing labour contracts and mutual responsibilities of the parties in their implementation, and role of employers in the regulation of labour relations. It is planned to arrange similar seminars in Ali-Bairamly and Lankaran.

A Cooperation Agreement has been concluded between the State Committee for Women Affairs and National Confederation of Entrepreneurs (Employers). This agreement has been signed to promote entrepreneurship in the country, to achieve better understanding between the employers and state supervisory and regulatory agencies, and to ensure compliance with agreements reached during consultations and negotiations.

■ *Monitoring the labour market*

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

In 2003, an Information Center on Labour Protection has been established in the State Labour Inspection within the MLSP.

In January 1, 2004, a Migration Department has been established on the base of Migration Unit within the Head Employment Department, attached to the MLSP. This was done with a view to addressing the issues related to employment of Azeri citizens abroad and employment of the foreign citizens in Azerbaijan, as well as regulating migration issues in a more effective way.

In line with the state migration policy, a draft of the Concept Paper on the State Migration Management Policy was prepared and submitted to the CM. It is expected to develop the State Migration Programme following the approval of the above draft concept paper. In order to raise awareness of the migrants and provide them with necessary information, an Advisory Service has been established and is functioning under the Migration Department of the MLSP.

Chapter 4: Social Policy and Human Capital Development

Education Policy

■ *Background*

One of the main strategic goals of the SPPRED is to improve the quality of basic education and provide equal access. With a view to achieving this goal the following objectives have been identified in the Policy Matrix of the SPPRED:

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

During 2003-2004 the following measures were implemented towards achieving the above-mentioned objectives:

■ *Providing free text books to school children*

About 15.2 bln. AZM was allocated from the state budget to provide all children in the I-V grades, as well as refugee and IDP children in the I-XI grades with free textbooks for the academic year of 2003/2004 to facilitate equal access to primary and secondary education and to improve educational resources. The textbooks have been published and distributed. This continued for the academic year of 2004/2005. An open tender was held for publishing textbooks for the I (ABC-book), VI and VII grades. Purchase agreements were concluded with 5 publishing houses⁵⁶ for publishing 2864000 copies of 35 types textbooks. A total of 1100000 children in the I-VII grades of the state schools of general education and about 32000 refugee and IDP children in the VIII-XI grades were provided with the free textbooks⁵⁷. In total, 23.3 bln. AZM were allocated from the state budget for the publication of textbooks. The 2005 state budget envisages allocation of 44 bln. AZM to provide the children in the I-XI grades of the schools of general education with free textbooks in 2005/2006 academic year.

■ *Improving the quality of teaching*

Upgrading teaching plans and standards: to improve the quality of education, new teaching plans have been designed. These are for "Azerbaijani language", "Mathematics", "Geography" for the V-XI grades, "Physics" and "Astronomy" for the VII-XI grades, "Biology" for the VI-XI grades, "Literature" for the V-XI and "Mother tongue" for the I-IV grades of minorities. For the first time, complete sets of "Literature" text-books for the V-VI grades of selected pilot schools, "Russian language" and "Literature" for the Russian schools, have been published and distributed to schools. These sets also included working papers and teaching support methods for teachers. This is part of the Education Reform Project, using soft loans from the World Bank. In addition, new courses on reproductive health and life skills in the education system have started in order to promote a healthy life style among adults and youth. In 2004, a teaching plan for "Azerbaijani language at Non-Azeri schools" was approved. A teaching plan for "Russian language at Azeri schools" and "People and Society" were prepared and published

⁵⁶ "Azerbaijan", "Chashioglu", "Azpoligraph Ltd.", "Khazar-Etiket" Ltd and "XXI".

⁵⁷ The Library Fund provided the children in the I-V grades of the state schools of general education and refugee and IDP children in the VIII-IX grades with the textbooks (published mainly in 2003) in 2004/2005 academic year. As well as our compatriots studying in Azeri in Georgia and Dagestan Republics, including Sunday schools in the CIS countries were provided with the textbooks.

in the press for discussion. A teaching plan for "Azerbaijani language" (for the X-XI grades) has been upgraded and a new teaching plan for "Literature" has been introduced at the schools of general education. A teaching plan on informatics for the I-XI grades has been drafted and submitted to the Institute of Educational Problems for consideration. At the same time, a number of programs on certain subjects for the institutions of higher education have been upgraded. In addition, a manual "Introduction to the active training methods for school teachers" was prepared and published in a book by "Inkishaf" Scientific Center in 2004 within the framework of "Active training and school management" project in 2004.

A "Curriculum Center" was established in line with the relevant Order of the Ministry of Education dated March 11, 2004 to implement the Action Plan on "Curriculum reform in the system of general education". This is a sub-component of the project "Development of the Education Sector" implemented under the Reforms in the Education Sector. A charter for the Center has been confirmed and recruitment procedures have started. In addition, a Republican Council for a general education curriculum was established. The Council consists of representatives of a number of ministries and committees, executive bodies, public organizations and parents. The Council's main tasks are to obtain and identify public opinion, as well as prepare relevant proposals for regular improvement of the curriculum. Terms of reference for consulting services have been prepared on the "Curriculum reforms" sub-component for 2004-2006, as well.

Expanding active teaching methods in education institutions and upgrading requalification courses for teachers: The importance of using active and interactive methods to improve the quality of education is clearly recognized. The promotion of active/interactive training methods is receiving attention in the SPPRED. These methods are intended to promote democratization of teaching and the education process; increase children's achievements and to create the necessary skills and abilities of children to meet modern requirements. Furthermore, these training methods are also aimed at increasing the quality of teaching, developing teachers' initiative and creativity and improving in children the skills of independence. Most importantly, these methods will also help analytical and logical skills and support the establishment of a modern education system. A number of pilot projects have been implemented to introduce these methods at schools of general education. These are: the project "Reforms in Education System"⁵⁸ (supported by the WB soft loan), "Active training and school management"⁵⁹ (supported by UNICEF), "Teaching human rights" (supported by the Norwegian Refugee Council), "Re-qualification of English language teachers" (supported by the British Council), "Program on preparation of curriculum for the secondary schools" (supported by IREX). Training and seminars on the introduction of active teaching methods have been arranged for teachers under these projects. Heads of schools have been instructed and guidelines on active training for teachers and training manuals have been prepared to support teachers in the introduction of active training methods. The pilot schools were provided with the teaching manuals, equipment and computers for effective introduction of active training. Parents and community representatives have also been involved in this work to ensure more efficient use of and support to active training. Mobile re-qualification courses have been arranged at schools and special courses on active training have been included in the teaching plans of re-qualification institutes. In addition, training based on a "train the trainers" model have been held and training/resource centers established to ensure exchange of experience. Study rooms for active training have been established at Azerbaijan Teachers' Institute, special courses on active training have been launched at Azerbaijan Teachers' Institute and its branches. A department for modern pedagogical methods has been established at the Institute of Educational Problems. Thus, hundreds of pupils, teachers, methodologists, parents, educational managers participate in the process of learning and introducing active training under these projects every year. About 300 teachers, methodologists and instructors, including 150 teachers and instructors who obtained "Trainer of trainers" status have been awarded with various certificates on active training. Every year, about 100 education

⁵⁸ This project covers 20 pilot schools of general education in 6 regions. A three-stage training course was organized in May-August 2003 for 66 teachers of 20 pilot schools and methodologists of regional education departments, as well as 62 methodologists of the teachers' re-qualification institutes based on a "Train the trainers" model. Participants were provided with the relevant certificate. They will teach their colleagues to active and interactive training methods based on new experiences in the new academic year. Seminars on the introduction of these methods have been arranged at the pilot schools of Baku, Sumgait, Nakhchivan and Sharur starting from the mid of last year.

⁵⁹ The project covers 5 pilot schools of general education (European lyceum, secondary school No1 in Shaki, secondary school No2 in Guba, secondary school in Kohna Alvadi village of Masally region and secondary school No1 in Vandam village of Gabala region).

sector employees are sent to foreign countries for familiarization with modern teaching techniques with support from the World Bank, Open Society Institute, IREX, British Council and other international organizations.

A new approach to the content of re-qualification and re-training courses and to training methods has been introduced. A "Cascade" method has been applied to strengthen the work with leading teachers and use them as "Trainers". 1200 Teachers of support/resource centers, who apply this method and are seen as "Trainers", as well as heads of schools have completed the II stage of the training course on "Active and interactive training methods" based on the "Train the Trainers" Program. In addition, an 18-hour and a 36-hour special seminar has been arranged to increase the skills of school directors in educational management and financing.

A conference on "Developing a National Policy to introduce active/interactive training in Azerbaijan" was held in November 2004.⁶⁰ During the conference there was a special focus on the following issues: i) preparing a Development Program to expand active training in the country and its broad scale introduction; ii) learning from international experience about introducing active training; iii) highlighting active training issues for the new curriculum to be prepared; iv) preparing and publishing instructions and methodologies on active training; v) preparing information materials⁶¹ to involve parents and community members in the implementation of active training and vi) establishing a coordination council for active training projects.

25 new strategic initiatives have been identified for re-qualification and retraining of teachers in 2003 and an appropriate action plan has been developed to be implemented over the next period. The plan identified 11 sets of actions for 2004. Plans and Instructions, covering 105 objectives, have been prepared. These are aimed at improving efficiency of teacher training in the institutions, regional education departments, schools, support/resource centers, the Education Coordinating Council, the Institute on Education Problems, and also management staff in education. The Plans and Instructions have been tailored to the needs of each organization.

To increase the professional skills of teachers and cover the needs for teaching staff through re-qualification, collegium resolutions have been adopted.⁶² The relevant orders of the Minister of Education were issued on: "Mechanism for advance needs assessment for teachers' re-qualification" (March 26, 2004) and "Introduction of the Concept of training educational managers in the Republic of Azerbaijan" (July 11, 2003). In addition, a "Development Program for 2005-2009 on the provision of teaching staff at the schools of general education of the Republic of Azerbaijan and the creation of new jobs" was drafted and approved by the relevant Order of the CM in November 4, 2004.

Increasing teachers' wages: According to the Order of the President of AR dated May 15, 2003, monthly wages of more than 320000 state funded educational employees, as fixed by the Single Tariff Scheme were increased 50% from June 1 (2003) and additional funds of 230.8 bln. AZM were allocated. The wages of about 100000 education sector employees were increased following an increase in the minimum wage. Extra-wage payments for academic degrees increased 5 times from July 1, 2004 in line with the relevant Order of the President of AR and were received by more than 800 doctors of science and 5200 candidates of science. According to the relevant Order of the President of AR, monthly scholarships for postgraduates, students of the state higher, specialized secondary and vocational schools, including students of lyceums were increased more than twice from May 1, 2004. In addition, criteria were developed for the introduction of performance-related pay for teachers.

■ *Improving a quality of education in higher education institutions*

TEMPUS – a technical assistance program for institutions of higher education is being implemented with support from the EC. This program assists in improving the quality of education at the universities. Thus, a project "Modern engineering education at the institutions of higher education of Azerbaijan" is being implemented⁶³ to

⁶⁰ This is a joint initiative of the Ministry of Education and UNICEF.

⁶¹ Films, posters, brochures.

⁶² "Progress in reforms carried out in re-qualification of the teaching staff, the results obtained and development prospects" (July 1, 2003).

⁶³ The project covers Azerbaijan Technical University, Azerbaijan State Oil Academy, Sumgait State University and Mingachevir Polytechnic University.

support the introduction of modern engineering courses at the universities of Azerbaijan. Laboratory equipment has been purchased for universities, a website www.tempus.aztu.org has been created and a total of 45 teachers have completed German language courses within the framework of the project. In addition, "Economics, building and protection of construction" project is being implemented to train specialists⁶⁴ required for the market economy and teachers with necessary qualifications.⁶⁵

With a view to improving and upgrading Biomedical and Veterinary Sciences in Azerbaijan's higher education system, a project "Familiarization with ecological knowledge in the South Caucasian region" is being implemented based on the Georgian experience of introducing a European system. Preparation of training materials is currently going on at the Baku State University and Azerbaijan Medical University. A modern immunology laboratory is being established at Baku State University. Furthermore, a project "Establishment of national resource centers for biological and veterinary education in Southern Caucasus" is being implemented to research and develop ecological knowledge in agriculture in the South Caucasian region. The work on a teaching plan "National Resources of Azerbaijan" has already been completed.

■ *Improving the material and technical base of education*

In order to improve the resources and technical facilities of education and promote equal access to secondary education, 150 school buildings with 33951 seats were built during 2003-2004. At the same time, 962 extra classrooms with 18714 seats were built and put into use. Major and seasonal repair work was carried out at 780 and 1617 schools respectively. Additional resources of 16.5 bln. AZM are envisaged in the 2005 state budget to provide the schools of general education with equipment, and major repairs.

A construction project for 5 school buildings with 5576 seats, meeting modern requirements, in the Khatai, Nasimi, Surakhany, Yasamal and Binagadi Districts of Baku has been designed and submitted to the CM. This will be supported by soft credits allocated from the SFD. ARRA, as a client agency, has drawn up the tender documents for the construction of these schools. Construction work is expected to start in 2005.

3 pilot regions – Ali-Bairamly, Ujar and Ismailly, have been selected under the Education Sector Development project. The relevant measures are being carried out to prepare Rationalization Plans for the schools of general education in these pilot regions. A tender was held in this regard and a contractor selected. One of the main components of the Rationalization Plan is to strengthen the physical and technical infrastructure of the schools in the pilot regions.

■ *Establishing Parent-Teacher Association*

The first National Conference and a constituent conference were held in 2004 aimed at establishing Parent-Teacher Associations. Parent-Teacher Associations have been established in 5 pilot schools⁶⁶ with support from UNICEF. The aim of the PTAs is to integrate the efforts of all parties concerned in school children's development. The PTAs will involve parents more actively in the teaching and educational process, implement projects and programs to solve existing problems at the schools of general education and provide social support. 45 Schools joined this initiative voluntarily.

■ *Introducing new technologies in the education sector*

20 pilot schools received computer equipment and other technical training facilities in 2003. The pilot schools were selected in Nakhchivan AR, Baku, Ganja, Sumgait and Lankaran as part of the "Reforms in the Education Sector". A program is being prepared to expand the use of Information Technologies at the schools of general education in more pilot regions (Ali-Bairamly, Ujar and Ismailly).

⁶⁴ Construction managers.

⁶⁵ A total of 18 master degree students of Azerbaijan University of Architecture and Construction attended training on the new specialism.

⁶⁶ The pilot schools are located in Baku, Gabala, Shaki, Masally and Guba.

A total of 72 Internet Computer Centers have been established at the schools of general education in Baku, Ganja, Mingachevir, Barda, Sumgait, Lankaran, Shaki, Naftalan, Ali-Bairamly, Nakhchivan, Sharur, Yevlakh, Goychay, Guba, Kurdamir, Ismailly, Masally, Shamakhy and Salyan as part of the "Azerbaijan Connections and Exchange Program". The Internet Computer Centers have been established by Project Harmony in line with an agreement with the Ministry of Education and with the support of the US Department of State to widen access to computers at the secondary schools. A total of 47 out of them were put into operation in 2004 at the secondary schools of Baku, Sumgait, Ganja, Mingachevir, Ismailly, Masally, Lankaran, Naftalan, Ali-Bairamly, Nakhchivan, Sharur, Yevlakh, Goychay, Guba, Kurdamir and Shamakhy. Each of the Centers has been provided with five computers, a server, printer, digital photo camera and scanner and Internet connection. Two people have been employed by each of these Centers. In addition, 1259 teachers, 7889 pupils and 1064 community members benefited from the classes held under the project up to August 2004.

A "Program to provide schools of general education with information and communication technologies in the Republic of Azerbaijan (2005-2007)" was prepared and approved by the relevant Decree of the President of AR in August 21, 2004. The aim of this was to improve the quality of education at the schools, create a shared information environment in the education sector, speed up integration into the world education system and prepare the population for the information society through the use of information technologies. This Program is expected to achieve the following: i) 4521 schools will be provided with computer equipment and get access to the Internet; ii) there will be 1 modern computer⁶⁷ per 33 pupils at the schools of general education in the country; iii) the use of information and communication technologies will increase; iv) about 10000 new jobs will be created in the country within a 3-year period; v) flexible teaching methods will be possible (Internet schools and distant learning); vi) the cultural learning of children and teachers will be developed; vii) new education environment based on new information technologies will be established; viii) transition to an information society will move a step further. It is planned to allocate 100 bln. AZM from the state budget for this Program. It is envisaged 20 bln. AZM in the 2005 state budget.

■ *Promotion of Early Childhood Care and Development*

International experience in creating community-based pre-school facilities is explored in order to expand pre-school facilities and introduce new models in pre-schooling. In addition, a Charter on establishing family-based pre-school facilities is currently being prepared. In several districts of Baku new classes started due to the interests of children and parents' in pre-school facilities. Currently, with the help of UNICEF, the Project on "Parent and Child Development" is being implemented. A total of 3 pilot pre-school facilities (Narimanov District, Sumgait city and Khyzy region) have been provided with equipment, technical support, stationary, toys and teaching aids. Training has been arranged at these facilities for parents and nurses to establish "short-term" groups. The 3-4-hour groups will provide a comprehensive development of children and prepare the children for school. Besides, 29 child development centers in 13 regions of Azerbaijan and 5 in Mingachevir have been established for children from refugee and IDP families and provided with stationary, toys and some literature. The WFP regularly provides nurses and children in these development centers with food⁶⁸. Regular training for nurses and parents are organized in the child development centers and in pre-school facilities selected within the framework of the above project.

A theoretical and practical conference on the subject of "Training center as a new service sector in education" was held at nursery No 257 in Khatai District with technical assistance from the Open Society Institute Support Fund (April 2003) and a new training center was opened. Since 1998, a "Step by step" technology project of the Open Society Institute Support Fund has been introduced at 58 kindergartens and primary classes of 43 schools in 17 regions of the country. Introduction of modern, including interactive training methods continued. A total of 4 pre-school and primary training centers (Salyan, Gakh, Aghjabadi regions and Ganja) were established and repaired; necessary equipment was provided in 2003. Funds for training have been allocated to these centers.

⁶⁷ At present, 1,570 modern computers are available at 4,521 schools of general education and 1 computer on average for every 1,063 pupils.

⁶⁸ The nurses are not hired on a wage basis at these development centers. They are provided with food supply by the WFP on a regular basis.

A conference to prepare a National Policy on “An Integrative Approach to Early Childhood Development” was held in May 2004 and priority measures in this area were identified. In addition, the relevant measures are being implemented for the preparation of a development program on pre-school education. New opportunities will be created for the development of pre-school institutions following approval of the program. At the same time, a pilot project to involve “children in need” in the integrated training was launched by the Open Society Institute Support Fund and the World Learning international humanitarian agency in 2004. This project is supported by the UNESCO and will cover a 1-year period. The pre-school institutions No 11 in Yasamal District, No 257 in Khatai District and No 30 in Sumgait have been selected as the pilot institutions.

According to the agreement between the Government of Azerbaijan and the ADB, “Technical Assistance for the Development of Young (of pre-school age) Children” will be implemented in February 2005, lasting approximately 6 months. The project will conduct a basic survey to identify the key child development indicators for children of pre-school age in 10 pilot regions. It will also include a needs assessment to find out problems and to gather information for the preparation of an ADB-funded loan project. A consulting company (Helsinki Consulting Group Ltd) has already been selected to implement the project.

■ *Improving the resources of school libraries through publications in Latin alphabet*

The President of AR signed an Order in January 12, 2004 to ensure a mass re-print of the publications in the Azerbaijani-Latin alphabet, which were published previously in the Azerbaijani-Cyrillic alphabet. A tender was held for the implementation of the above-mentioned Order and a contract signed with the winner of the tender. A total of 44 types of books have been published with 10000 copies (in total 25000 copies will be published). A presentation ceremony of these books was held on December 9, 2004. The publication of the remaining 15000 copies was completed by the end of the year. It is planned to complete the other measures envisaged in the Order by the first half of 2005. In addition, the relevant Order of the President of AR approving a list of publications in Latin Alphabet to be re-printed in Azeri language in 2005-2006 was signed on December 27, 2004. A list of publications with Latin Alphabet in Azeri language to be re-printed in 2005-2006 was approved. The list includes 172 types of books.⁶⁹ The CM, Ministry of Education, as well as other ministries with subordinate higher and specialized secondary schools have been instructed to prepare a “Textbook” Program within a three-month period and submit this to the President of AR for approval. The Program envisages publishing textbooks in the Latin Alphabet for the institutions of higher education and secondary schools.

Following the Order (January 12, 2004) preparations have started to publish in the Latin alphabet a new National Encyclopedia in 2004-2008 consisting of many volumes. A Regulation for editorial staff of Azerbaijan National Encyclopedia was prepared and approved by the relevant Presidential Decree in April 2004. A Scientific Center “Azerbaijan National Encyclopedia” was established based on “Azerbaijan National Encyclopedia” publishing house of the Azerbaijan National Academy of Sciences by the relevant Order of the President of AR in May 2004. Preliminary work on a thematic glossary was completed in September and advance copies published in December. A draft circulation to be sent to scientific institutions, enterprises and separate individuals for comments is currently being prepared. Separate sections have been combined into a special volume “The Republic of Azerbaijan”.

In order to improve the material and technical base of school libraries, the “Ayna children’s encyclopedia” in 18 types (846 thsd. copies) have been published in Latin alphabet as a reading material and currently, are being distributed to the school libraries as free of charge.

■ *Introducing a more flexible budget management system for the education sector*

With a view to improving budget rationalization and financial management in the education sector, within the framework of IBTA -II Project an international consultant has been involved to analyze the financing of education,

⁶⁹ The list consists of four sections – “Dictionaries and encyclopedias”, “Azerbaijani language and history”, “Classic and modern Azerbaijani literature” and “World literature”.

education expenditure, its effectiveness and the education priorities for the Government. Training sessions on methods for analyzing expenditure have been held at the Ministry of Finance. In addition, a draft final report on education expenditure analysis was prepared and submitted to the Ministry of Education on December 18, 2003. The Client (Ministry of Education) and the WB have provided comments on the report. These comments were adopted by the GRM International Pty Ltd company and a revised version of the report was submitted in November 2004. A tender was held for the purchase of computers for the Ministry of Education. The equipment has been provided.

■ *Improving the monitoring of the quality and access to education*

For the first time, a national assessment, in line with international standards, has been held within the framework of Education Reform Project, to review teaching conditions and the quality of education at 11 schools in Baku, 5 in Lankaran, 2 in Ganja and 2 in Sumgait (8 pilot and 12 non-pilot schools, including rural schools). Thus, approximately 1900 children of the V grade were tested with the assistance of international consultants, on the subjects of “Mother tongue” and “Mathematics”, and surveys were held covering pupils and teachers.

A Department for Assessment of Pupils’ Achievements was established at the Ministry of Education on February 21, 2004 with support from the Education Sector Development Project. A Regulation for the Department has been prepared and approved. In addition, the structure and staff list have been identified and the employees have been selected through recruitment procedures. These measures will promote: i) the creation of a comprehensive national system which coordinates the preparation of a curriculum and evaluation activities; ii) the use of evaluation to meet training needs, and iii) establishment of intra-school and national evaluation systems to increase the success of pupils from vulnerable backgrounds. To achieve these goals, the following activities have been identified for the near future: i) developing a long-term strategy by the Department for Assessment of Pupils’ Achievements; ii) defining the intra-school and national evaluation concept; iii) establishing evaluation standards; iv) establishing an intra-school evaluation system; v) support training of specialists in pupils’ evaluation; vi) establishing a national evaluation system; vii) developing evaluation methods; viii) providing assistance to arrange trainings for teachers and specialists and prepare subjects and programs for seminars; ix) provide assistance for the preparation of methodological manuals, tests and questionnaires for evaluation; x) assisting with the analysis of evaluation outcomes; xi) establishing contacts with foreign evaluation centers and provide an exchange of information.

■ *New Reforms Project*

In order to continue the Education Reform Project, a new 10-year, 3 staged Education Reform Program, covering 2003-2013 was prepared jointly with experts from the WB, within the framework of the SPPRED. Thus, the first stage of the Program will cover 2003-2007, the II stage - 2007-2010 and the III stage – 2010-2013. The Education Sector Development Project for 2003-2007 is being implemented as the first stage of the Program. Information on the implementation status of the project has been provided in the relevant sections above.

Culture

■ *Background*

SPPRED gives a special attention to the preservation of the rich cultural heritage and to expand access to the cultural facilities of Azerbaijan. To achieve this, the following objectives have been set:

- Improving equal access to cultural and art centers;
- Improving the conditions of art workers and provide support to develop their skills;
- Protecting the cultural heritage.

During 2003-2004 the following measures were implemented towards achieving the above-mentioned objectives:

■ *Improving equality of access to cultural and art centers*

The State Philharmonic named after M. Magomayev was refurbished in 2003. In order to improve access for 1200 people to 13 reading-halls and 4.5 mln. books; major repairs to the Central Library, named after M.F.Akhundov were carried out, supported by EU technical assistance and with grant support from the Open Society Institute Support Fund. The repair work was completed in the fourth quarter of 2004. An electronic catalogue was created and the book stock enriched. Major repairs were also carried out at the Lankaran State Drama Theatre. Improvements to facilities are continuing at Baku Choreographic School, State Museum of Art, library for the blind, schools of music, art and painting for children.

■ *Stimulating art workers and improving their skills*

According to the Decree of the President of AR dated June 5, 2003, from the 1st of June, 2003, monthly wages of the state-funded employees of culture, art and mass media (total number is 30100), as fixed by the Single Tariff Scheme, have been increased 50%. Thus, additional funds of 12 bln. AZM were allocated for 2003. According to the relevant Order of the President of AR dated December 29, 2004, wages of the employees of a number of music orchestra financed from the state budget have been increased on average twice from January 1, 2005. In addition, wages of the culture, art and media employees have also been increased in line with an increase in the minimum wages.

■ *Protecting the cultural heritage*

Within the framework of "Cultural heritage preservation", a project implemented with support of a soft loan from the WB, restoration of the Court-room at the Shirvanshahlar Palace was completed and an opening ceremony was held in July 2003. Repair and conservation of Momuna Khatun tomb and Gudu Khatun tomb in Garabaghar village, as well as two towers was completed and these cultural centers were re-opened in September 2003. Repair and reconstruction of the second storey of the Shirvanshahlar Palace and Shaki Khan Palace has been completed and both cultural centers were re-opened in November 2004. In addition, a training course on Cultural Heritage Monuments was arranged in Rome in May-June 2004 for the experts and managers from Azerbaijan.

Within the same project has been carried out to make an inventory, to computerize and repair cultural objects⁷⁰. As a result of this, a well equipped and computerized Cultural Heritage Archive was established for the first time in Azerbaijan in 2003.

A "Development Program" has been prepared by the Government of Azerbaijan and the WB using the saved funds (about USD 2.8 mln.) as part of Cultural Heritage Preservation. The Program envisages directing the saved funds to the development of communities around the monuments and infrastructure, in particular to the poor. To this end, the following activities have already been launched: i) establishing a Center for Cultural Services and Information in Ichari Shahar; ii) holding a festival "Day of Ichari Shahar" and improving the environment; iii) arranging training courses in tourism in Nakhchivan, supporting the development of tour-operator companies; iv) establishing an Association of Craftsmen and Family Tourism Association in Shaki. Thus, in order to implement the above-mentioned measures in Ichari Shahar, sociological research was conducted among children, young people and parents living in this area. A tender⁷¹ was held to organize Ichari Shahar festival and establish a Center for Cultural Services and Information. Furthermore, the necessary equipment has been purchased, the funds for repairs allocated and the location for the Center selected. The festival is planned to be held in April 2005. At the same time, a winner of the tender was identified to provide training for tour-operator companies in Nakhchivan.

⁷⁰ Repair work was carried out through the state funds.

⁷¹ A contractor has been selected.

The training took place in May-June 2004.⁷² Shaki Craftsmen Association was established and officially registered in 2004 to provide assistance to the export of handicrafts made in Shaki. Shaki Craftsmen Association has managed to get a place at the Business Sale Center located in the seaside park of Baku. Handicrafts made by the members of the Association have been placed at the exhibition. A specialist on export of products to international markets was selected and a contract was signed in April 2004. Training on product design has been arranged and prototypes of products were selected and sent to KASITYO 2004 exhibition held in October 1-3, 2004. A Shaki Family Tourism Association was established and officially registered in 2004, the organization was provided with office accommodation and its website (www.sheki-bedandbreakfast.az) was created. The aim of this was to improve the social and economic status of the residents of Shaki, especially of those living around Khan Palace protected area, who rent their houses to guests and tourists. A total of 45 houses have been checked by the Project Working Group and the first catalogue is being prepared based on the collected information. At the same time, training has been arranged to increase the commercial and legal skills of the members of the Association. 200 Copies of the catalogues have been prepared in Azeri, Russian and English. A brochure of the Association (5000 copies in Azeri, Russian and English) has been published and other publicity work completed. In addition a tender was held to prepare and disseminate a TV documentary film, commercials, announcements, booklets, catalogues, posters, CDs and other materials related to the measures to be implemented within the framework of the "Development Programme", and a contract was signed in March 2004.

As there was a substantial amount of the funds unspent, it was agreed to extend the Cultural Heritage Preservation for two years (until December 30, 2006). In addition, it is planned: i) to provide assistance to the preparation of a plan for the management and protection of Ichari Shahar; ii) to conserve a Mosque and Reservoir at the Shirvanshahlar Palace; iii) to promote open air and income generating events⁷³ for tourism to support the financial viability of the Palace; iv) to prepare an Ichari Shahar management plan; v) to prepare a Conservation and Regeneration plan for the management of Ichari Shahar, and vi) to monitor all events implemented under the Development Program.

Health Policy

■ Background

One of the main strategic goals envisaged in the SPPRED is to improve the quality of the basic health services and provide equal access to them. The below-mentioned objectives have been set for this purpose:

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

⁷² A number of participants of the training courses have submitted the necessary documents to the Ministry of Justice for establishing private companies and one of them has already passed through the registration.

⁷³ For example: holographic, voice and luminous effects.

The implementation status of the policy measures of the above-mentioned objectives in 2003-2004 is as follows:

■ *Strengthening the Primary Health Care System*

To improve general access to basic health care services, 45 community health services were set up, and 5 medical storehouses and 5 training centers were refurbished in 5 pilot regions⁷⁴ in 2003 within the framework of the WB funded Health Reform Project in partnership with UNICEF. This project aims to strengthen the primary health care system and rationalize health services. A Rationalization Plan⁷⁵ of the pilot regions has been prepared. The Drug Funds, introduced in the pilot regions have been replaced by free distribution of the drugs. Medicines costing USD 383500 have been purchased and distributed among the health centers and TB dispensaries in the pilot regions in order to improve provision of essential drugs. To improve provision of health centers with medicines, cold chain systems and laboratory equipment, a total of USD 838727 has been spent on purchasing equipment, including the vaccine refrigerators, generators, cardiographic equipment, sterilizers and other equipment. 982 Medical employees were involved in 15 different training courses in 5 pilot regions and 5 other regions. At the same time, observation trips to Guba and Neftchala regions were held in 2003. During these visits there were opportunities to exchange experience. Health discussion days were held in the pilot regions with public participation. The reforms in these two regions were launched earlier.

Repair of 45 Health Centers in 5 pilot regions started in 2004. In general, 1512 medical employees, 285 members of the Health Councils and public representatives in 5 pilot regions have benefited from 21 medical training courses. In addition, 79 community members attended training on the role of communities in developing primary health services and to improve the use of local resources. Health sector employees of the pilot regions held the seminars to exchange experience in Sharur and Shamkir regions in June-September (2004) sharing their experiences on reforms in the primary health care services. 30 different promotion materials (more than 48000 copies) on the health sector have been published and distributed. Health days were held in each region. Community Health Councils held various discussions to involve the population in basic public health. Guidelines on the use of essential drugs and equipment have been published and distributed to the health centers. Anti-TB medicines, laboratory examination tests, basic medical equipment, training models for first aid training, UPS for the computers and photo cameras have been purchased and distributed to the pilot regions. Basic medical furniture for the health centers has been ordered. At the same time, a survey covering 57 communities of the pilot regions has been held to find out the levels of awareness of communities about health care services and their participation in the implementation of these services.

To enhance the Health Policy reforms, internal and external training aimed at capacity building has been arranged. The analysis of health expenditure, for health financing reforms, continued. With support from the WHO, the terms of reference have been drafted to improve the National Drug Policy and prepare the Reforms of Pharmaceutical Policy. An international expert has been selected and started work in July 2004. A conference "Reforms in the Health Sector" was held on 1-3 December, 2004, to review the reforms carried out in the health sector and to determine the priorities. The following proposals were put forward at the conference: i) strengthening de-centralization and the management of health care services: establish the Health Policy and Planning Centre, including Health Insurance System under the Ministry of Health; ii) for basic health care: improve preventive, primary health care and treatment services; study advanced experiences and ensure effective distribution of financial resources at the regional level; iii) for HR management: prepare the relevant policy to prevent shortages of personnel in rural areas; improve HR planning and management potential⁷⁶, improve and develop training programs, as well as accreditation of the medical staff; iv) for pharmaceutical policy: speed up the preparation of the National Pharmaceutical Policy and enhance access of the poor to good quality medicines (regulation of drug prices in the country and access of the poor to essential drugs).

⁷⁴ Salyan, Khachmaz, Sharur, Goychay and Shamkir.

⁷⁵ These plans envisage reduction of the beds, redundancy of the medical staff, opening of the new posts, specialized training and other issues.

⁷⁶ It is envisaged to improve a new approach to planning of requirements and review the balance between the central and local levels.

The project "Improvement of community-based primary health care services in Barda region" is being carried out by the "Healthy World" national NGO with support from OXFAM. Medical points are constructed, repaired and supplied with equipment, Drug Funds are established and health education provided within the framework of the project. At the same time, underprivileged families, identified with the help of the community, use both free medical services and medicines. The project covers 30 communities with a population of 45000.

■ *Improving resources and technical facilities of the health sector*

With a view to improve resources and technical facilities of the health sector and access to the health care services, ARRA has signed agreements to refurbish several health facilities in 2003-2004 with technical assistance from the EC. These facilities include the sections of Scientific-Research Institute named after Topchubashev with 300 beds and the Hospital named after Mirgasymov with 500 beds, sections of the Obsteric and Gynaecological Institute with 110 beds; Pediatric Scientific Research Institute with 80 beds; Institute of Traumatology with 250 beds; Anti-AIDS Centre with 30 beds and 100-beds in the main section of the clinical hospital No 4 of Baku City. Rehabilitation work at these facilities is currently underway. Refurbishment of the Oncological Centre has been completed. A tender was announced by ARRA in November 2004 to provide the 7 above-mentioned medical facilities with modern equipment. In addition, agreements have been signed for renovation of the Pediatric Clinics No 11 in Sabail district and No 22 in Zabrat settlement. This work has now started. Furthermore, a tender was held by ARRA in August 2004 for the renovation of 150-beds section of the hospital No 3 of Sabunchu district. The results of this tender are being considered by the EC.

A total of 100 primary healthcare ambulances have been purchased for a number of regions through the budgetary funds in order to improve access to primary health services and to strengthen the primary health care system. In addition, it is planned to allocate 50 bln. AZM from the 2005 State Budget to purchase equipment for the health sector. This, will improve the provision of a better quality service by the health facilities.

■ *Expanding the Program on Immunization*

Various types of required vaccines were purchased in 2003 for the implementation of an EPI. Thus, 98% of children have been vaccinated with Hepatitis B; MMR vaccines. Disposable syringes were purchased for 30000 children. 900 doses of vitamin A for strengthening the immune system, have been purchased with support from UNICEF and distributed to all the regions. In addition, training and public awareness campaigns were held. About 2.1 bln. AZM were allocated from the state budget in 2003 for the implementation of the Immunization Program, which is approximately 40% of the overall vaccination costs. The relevant equipment for disposal of the syringes has been purchased and distributed to 10 regions. Refrigerators and generators have been purchased to strengthen and maintain a cold chain system to cover 20 regions. Monitoring has been held in 30 regions within the framework of EPI.

The purchase of various types of required vaccines for the implementation of EPI continued in 2004. Thus, 381260 doses of Hepatitis B vaccine, 9112350 doses of MMR vaccine and 679200 disposable syringes were purchased with support of GAVI and VRF. In order to expand the experience of providing safe immunization, sanitary information sessions were held in the regions. In addition, 250000 doses of BCG, 415000 doses of DTP, 140000 doses of DT and 200000 doses of Polio vaccines have been purchased through the state funds. About 2.6 bln. AZM were allocated from the state budget in 2004 for the implementation of EPI, which is approximately 45% of the overall vaccination costs. In addition, monitoring was held in 23 regions; seminars on immunization were delivered in 5 regions and training regarding the reforms in this field arranged in 5 regions within the framework of EPI. At the same time, promotion materials (on vitamin A) have been prepared with support from UNICEF to ensure public awareness.

■ *Promoting safe motherhood and essential care for the newborn*

In order to encourage breastfeeding, 185 medical employees attended training courses in 37 locations; assessments have been conducted among pregnant women in the same areas and a total of 9 maternity hospitals have been

identified as baby friendly hospitals. To increase birth safety and enhance basic newborn care, training courses were held with support from UNICEF in 10 regions (with 5 doctors in each area). A Law on "Nutrition of Infants and Young Children" was adopted on July 17, 2003 to promote and protect breastfeeding of infants and young children. May 1-2, 2003 was celebrated as the "National Day" for healthy nutrition of children in Azerbaijan.

Training on "Breastfeeding" was organized jointly by the Ministry of Health and UNICEF in 35 regions in 2004 in order to encourage breastfeeding and in total 67 maternity hospitals were identified and awarded with an international title of "Baby-Friendly". At the same time, evaluations were held at maternity welfare centers and monitoring held in the training regions to identify increase in medical awareness.

■ *Improving management of childhood diseases*

In 2003, essential drugs of 19 types were supplied to 30 regions in order to improve treatment of childhood diseases and 49 medical employees and pediatricians were trained on the treatment of acute respiratory diseases and diarrhea in 7 regions⁷⁷. At the same time, 1500 posters on acute respiratory diseases and 1500 posters on diarrhea were published and distributed to all the regions of the country for public awareness. Monitoring of these diseases has been conducted in 20 regions of the country and public awareness measures have been implemented.

The measures within the framework of "Acute Respiratory Infections and Diarrhea Diseases among Children" continued in 2004. Thus, ORD salt was purchased for 20 regions and training materials were distributed to 10 regions. 3 regions were provided with training appliances (TV set, video and overhead projector). In addition, monitoring was held in 20 regions, 40 medical employees attended training in 4 regions and training seminars were held for 150 medical employees on IMCI (Integrated Management of Childhood Illnesses) Program. A meeting with 80 medical employees was held over a one-year period to raise public awareness.

■ *Preventing malaria and reducing malaria incidence*

Monitoring of malaria was conducted in 16 regions in 2003 in order to prevent malaria and reduce its incidence. The relevant disinfection measures were made against malaria transmitters in Sabirabad region. A total of 30 people attended the training courses on malaria in 2 regions (Sabirabad and Bilasuvar) and information leaflets for increasing public awareness on malaria prevention were published and distributed.

Monitoring on malaria diagnosis in 15 regions and improving health care services on malaria in 16 regions were conducted in 2004. At the same time, regional health departments were provided with TPX-5525 and other disinfection medicines as well as laboratory facilities. Information leaflets (6000) were published and distributed with support of the UNICEF to increase public awareness on preventing malaria among the population. The National Malaria Program and a Clinical Manual on Malaria for 2005-2009 were published.

■ *Reducing incidence of TB*

In order to introduce and expand a new anti-TB strategy – DOTS, an interagency coordination committee was established with participation of the central executive bodies and donor organizations. The initiative was supported by WHO and GTZ. 5-day seminars were held in 19 pilot regions for doctors and laboratory assistants. The medicine against TB was purchased from the Global Medicine Fund⁷⁸ and distributed free of charge to 3500 infected persons. At the same time, international recommendations and training materials on combating TB have been translated and their simplified versions, adapted to the local conditions, have been published. Advice on purchase, storage and distribution of drugs has been provided and a health education program delivered. In parallel, the management of a bacterioscopy has been adjusted to the program, and information in line with the new strategy was prepared. Field trips were organised to 36 areas in 2003 and 20 new pilot regions were selected in order to expand the coverage of DOTS program. Medical employees benefited from a number of regional

⁷⁷ Absheron, Sumgait, Ismailly, Tovuz, Guba, Mingachevir and Ganja.

⁷⁸ HRZE 1913100; HR-3974800; Z-697000; E-713400; S-107800; HE-43680.

conferences and seminars (in Georgia, Poland and Kyrgyzstan) to learn international experience of combating TB in 2003. The TB treatment clinic (with 115 beds) in Bina prison was refurbished and provided with furniture and equipment with EU assistance.

Regulation for the "Program on Combating TB based on DOTS strategy" was completed with technical assistance from GTZ, submitted to the Ministry of Health and approved in 2004. At the same time, a plan for establishing a National Reference Laboratory was submitted to the Ministry of Health. A National Coordination Group with 11 members for combating TB was established.

The members of the National Coordination Group attended the international conferences and training held in April 2004 – in Tbilisi, in May – in Warsaw and in June – in Moscow. A single format for quarterly reports has been designed based on DOTS recommendations, single request forms to order anti-tuberculosis drugs produced and now are being used. Quarterly Regional Bulletins have been published and distributed among physicians and medical employees of 39 pilot regions.

A request to order the medicines was made to the Global Medicine Fund: the necessary medicines were purchased and distributed to 39 regions. A storage facility was established and repaired in the Institute for Lung Research to store anti-TB medicines. Moreover, all TB prophylactic centers of the pilot regions have been provided with registration and report formats; guidelines for quarterly reports have been produced and quarterly supervisions of pilot regions are being continued. The training on "Organization and provision of laboratory services at the regional level based on DOTS principles" and "Combating TB at the regional level based on DOTS principles" has been organized for intermediaries, lung specialists and laboratory assistants of the pilot regions. At the same time, the necessary measures have been implemented to improve sanitary awareness.

■ *Strengthening reproductive health and providing access to contraceptives from reliable supply systems*

In order to strengthen reproductive health and provide the population with contraceptives from reliable suppliers, Reproductive Health and Family Planning Centers have been established in Saatly, Imishli, Khyzy, Bilasuvar and Sabirabad regions with support from UNFPA. One center has been reconstructed in Shaki. In addition, these centers were provided with the relevant equipment in Gusar, Gabala, Aghdash and Jalilabad regions. All these centers were provided with brochures and contraceptives. 215 obstetricians and gynecologists have attended the relevant training courses.

A total of 1100 training materials on childlessness, family planning, tumors and prevention of pregnancy were prepared for obstetricians and gynaecologists and distributed among them. 6 training packages were prepared in 2003 with technical assistance of the UNFPA.

Family Planning Centers were established in Sabirabad, Masally and Gazakh regions in 2004 with assistance of the UNFPA. These centers were provided with the necessary equipment. It is planned to establish new centers in Gadabay in 2005. In addition, distribution of contraceptives and the necessary equipment among 26 Family Planning Centers continued during the year.⁷⁹ All the Family Planning Centers and Obstetric and Gynaecological Institute were provided with the posters on "Sexually transmitted infections" (4000 pieces), "Family Planning" (4000 pieces), including brochures on "Sexually transmitted infections" (5000 pieces). A "Clinical Manual on Family Planning" was prepared for the obstetrician-gynaecologist and training courses were held in September-October 2004.

■ *Reducing iodine deficiency disorders and iron deficiency anemia*

⁷⁹ Pharmatex, Condom, UDV, Marvelonnan.

Equipments were installed for iodization of salt and iron fortification of flour in 2003 with ADB and UNICEF assistance. 5 flour-producing plants in Absheron peninsula and 3 salt⁸⁰ producing plants had this equipment installed. A National conference on the Prevention of Malnutrition was held. Training courses on the prevention of iron deficiency anemia were arranged for 120 educational and medical employees in 5 pilot regions (Aghjabadi, Saatly, Sabirabad, Bilasuvar and Imishli). Furthermore, the employees of 14 customs points were trained; 360 civil society representatives attended courses in 18 regions and cities. The Decree of September 27, 2003 was signed by the President of AR in order to ensure enforcement of the Law of AR "On Universal Salt Iodization for Mass Prevention of the Iodine Deficiency Disorders" adopted in December 27, 2001.

To reduce iodine and iron deficiency disorders, a TV commercial on iodized salt and iron fortified flour and a film on anemia have been produced. Training for education and health sector employees was completed in 2004. To improve laboratory services for monitoring and control purposes, training courses for the employees of Sanitary-Epidemiological Stations, Sanitary Quarantine Inspectorate, including salt and flour producing enterprises, (the pilot enterprises) have been completed. A total of 30 portable iodometric devices have been ordered for laboratory control, reagents purchased and distributed among the identified locations. Potassium iodate (7765 pieces) and potassium iodide (2500 pieces) measuring test-kits have been purchased. An event devoted to the "National Day for Combating Iodine Deficiency" was held in June and December. Besides, training courses have been held and the necessary manuals published. Training and monitoring have been held in 18 regions within the framework of the program "Prevention of iodine deficiency disorders and universal iodization of salt". At the same time, surveys were held to identify the level of nutrition among the population. Thus, the monitoring of market and households held by Independent Consumer Union revealed that consumption of iodized salt was 42-44% in 2003, while 82-86% in 2004.

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

With regard to promoting health education to reduce potential health risks, actions have continued during the last period. Thus, 343 articles, interviews and other programs in 2003 and 302 in 2004 have been presented through the mass media to raise awareness about AIDS. A mobile promotion and examination team (MPET) against AIDS has been established by the Centre for Combating AIDS. The MPET is providing information against AIDS in the streets of Baku and Sumgait. Densely populated areas receive information through audio and video loud-speakers. The first caricature competition has been organized in the Republic on the following topics: "Azerbaijani caricaturists against AIDS", "We love the life" and "Mutants are unable to kill mankind". Training on "Healthy Lifestyle" and "Sexually transmitted infections and Teenage Pregnancy" were held in 2004 in Lankaran, Masally, Neftchala regions, Mingachevir and Sumgait cities. The aim of these training sessions was to increase effectiveness of medical employees in combatting substance abuse among the youth. In addition, a conference is planned for 2005 with support of the Joint United Nations Program on HIV/AIDS (UNAIDS), WHO and other international organizations. The goal is to make the anti-virus medicines available for countries, including infected people and to strengthen the prevention of AIDS in the world.

A Commission for Combating AIDS and its Prevention was established (Order, CM, 16.08.2003). According to the National Strategy Plan⁸¹ on Prevention of HIV Incidence, epidemiological observations started to be carried out amongst people who take drugs through injections and women who deliver sex services. Thus, within the framework of this Plan, anonymous surveys have been conducted among 400 drug addicts (who participated voluntarily in the surveys) in Baku and Lankaran and 200 women delivering sex services in various regions. Their blood has been tested against HIV and virus hepatitis "C" at the Centre for Combating AIDS. A total of 12 regional laboratories were supplied with modern diagnostic equipment in 2003 for determining HIV infections. With

⁸⁰ 2 in Baku and 1 in Nakhchivan.

⁸¹ National Strategy Plan was approved by the CM on September 25, 2002.

regard to medical and social adaptation of the HIV/AIDS infected persons, 76 persons⁸² were provided with both disability status and benefits. All regional branches of the State Employment Department have been instructed to provide unemployed persons, who are infected with HIV, with jobs. A "National Protocol on ARV therapy" is being prepared for comprehensive and free treatment of diseases.

While 158714 blood tests were made during 2003 the number of those tested for HIV was 189410 in 2004, which amounts to 2.4% of the country's population. The small share of tests makes it difficult to determine the real scale of the epidemic. The number of donor blood tests at the Center for Combating AIDS and regional laboratories increased 14.3% (it was 14302 in 2003) and reached 17666⁸³. During the last period, a total of 5332 anonymous telephone calls were made to the Center for Combating AIDS, which provides a twenty-four-hour anonymous checkup and consultation to the population. The number of anonymous checkups increased 1.5 times in 2004 in comparison with 2003. 8462 persons were provided with consultation before and after the checkup. According to the National Strategy Plan, voluntary, anonymous and free checkup points for foreign drivers started operating in Sulu Tapa and Shykhov settlements in July 2004. As a result, 15 out of 830 drivers (1.8%) were found to have HIV.

A Program on Combating HIV/AIDS was prepared by the Ministry of Health and submitted to the Global Fund for support to its implementation. The Global Fund adopted a resolution to provide 2-year financing of the 5-year program on "Strengthening the fight against HIV/AIDS in Azerbaijan" in July 2004. The relevant project was prepared to implement the Program. The project has the following main components: i) improving the country's potential to expand intersectoral approach to combating HIV/AIDS; ii) expanding institutional capacity to control HIV/AIDS; iii) reducing transmission of AIDS among vulnerable groups⁸⁴; iv) reducing HIV incidence and improving living conditions of people with AIDS by providing medical treatment. The work on a grant agreement to be signed between the Global Fund and the Ministry of Health is currently underway.

■ *Improving health information system*

Preparation of the Azeri version of the international classification on diseases and health problems continued in 2003 and the publication of the first and second volumes of the X review of the ICD was completed. Guidelines on the introduction of the new registration documents on birth and perinatal mortalities have been prepared and published and 60 people provided with the relevant training. Training on a Health Information System has been arranged in Sumgait, Absheron, Gobustan, Siyazan, Davachi, Khyzy, Imishli, Sabirabad regions and 80 health employees have received the relevant training.

Training regarding the introduction of the ICD and proper coding of medical certificates on death and perinatal mortality continued in 2004. In addition, training was provided to increase the opportunities for using modern computer technologies in the health sector. The training was held in Goychay, Salyan, Shamkir, Khachmaz, Sharur, Masally, Gabala regions and Ali-Bairamly city and 200 health employees benefited from this training. Work on registration documents and software to meet international standards is being implemented to establish the register on diabetes. This is done according to the Law of AR "On the State Care for Persons Suffering from the Diabetes".

In order to establish the National Monitoring Center, work is continuing on various electronic registers, health passports for the citizens of the Republic of Azerbaijan and an electronic registration system within the framework of the SPPRED.

■ *Improving budget rationalization and financial management in health sector*

Monthly wages of the state-funded health employees (143400 persons) as fixed by the Single Tariff Scheme, have been increased 50% since the 1st of June of 2003 in accordance with the Order of the President of AR dated June 10,

⁸² A total of 19 people out of them were provided with disability status.

⁸³ As a result of the checkup, 29 people with HIV, 35 with syphilis, 75 with hepatitis B and 137 with hepatitis C were suspected to be infected.

⁸⁴ Young people, drug addicts, migrants and etc.

2003. Thus, additional funds of 30.1 bln. AZM were allocated for 2003. Monthly wages of the health sector employees were increased following an increase in the minimum wage.

In order to improve budget rationalization, distribution and management of health expenditure, the work envisaged under the agreement with Turkish “G&G Consulting” company⁸⁵ was completed and a final report (Health Expenditure Analysis) approved in May 2004 by the Client and the WB. At the same time, a training course on “Health Expenditure Analysis” was held at the Ministry of Health.

Social Protection System and Pension Reforms

■ *Background*

One of the key strategic goals of the SPPRED is to introduce relevant reforms in the social protection system to strengthen and improve the protection of underprivileged and vulnerable groups. The following objectives have been identified for achieving this goal:

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

During 2003 and 2004, the following measures have been implemented to achieve these objectives:

■ *Creating a system of targeted social assistance*

A Draft Law on Targeted State Social Assistance and the “Concept of Social Assistance Reform in the Republic of Azerbaijan” have been prepared and submitted to the CM. A task force was established under the MLSP in November 2003 to prepare criteria for identifying underprivileged groups. The Department for Targeted Social Assistance Policy was established in line with the relevant Resolution of the CM dated April 13, 200 “On approval of the central structure of the MLSP”. Pilot projects have been completed in Guba region and Nizami District of Baku within the framework of the “Project on Social Protection and Pension Reforms in Azerbaijan” in 2003. This work received technical assistance from the EU TACIS, to determine ways of estimating the income of the families receiving child benefit. In addition, visits have been made to Ukraine and Bulgaria for staff of the local social protection centers of the MLSP to learn about the methods used for targeting social assistance in these countries.

An Inception Report and 5 Interim Reports have been drawn up to prepare a Mid-term Social Assistance Strategy within the framework of IBTA-2 project and submitted to the MLSP for discussion. The above-mentioned Strategy will improve the analysis of social assistance structure and other related social protection programs, as well as targeting of social assistance. The submitted interim documents have been discussed at the MLSP and sent back to the project working group for improvements. In addition, a seminar was organized in February 2004 and 4 pilot regions (Davachi, Astara, Zagatala and Narimanov District of Baku) were selected to introduce targeted social assistance and the forms were prepared for the evaluation of the income of the population.

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

⁸⁵ Winner of a tender carried out within the framework of IBTA-2 project.

people in this category identified. These proposals have been agreed with the relevant ministries and submitted to the CM. In addition, it is envisaged for the first time to allocate 25 bln. AZM from the state budget in 2005 for the persons who got the status of war veterans during protection of constitutional structure of the state. At the same time, one-off benefits for child birth of 150000 AZM and funeral allowances of 300000 AZM were fixed for pensioners in line with the relevant Order of the President of AR dated December 29, 2004. In addition, it is also planned to increase benefits 8 times for children whose parents are doing military service in 2005.

■ *Reforming the pension and social insurance system*

Efforts are being made to speed up pension reforms. This is done within the framework of the Decree on Measures to Improve the State System of Pensions in the Republic of Azerbaijan issued by the President of AR on August 4, 2003. Separation of insurance and pension system from the state social assistance system was completed at the end of 2003. The functions of local offices of the MLSP to calculate pensions and benefits (supplements to the pensions) as well as financing, supervision and payment of pensions have been fully transferred to the SSPF. Payment of pensions and benefits have been transferred to a bank card payment system in Baku and Sumgait. Further work in the other towns and regional centers of the country is underway. The tender process for selecting the banks to arrange the pension payment system by plastic cards through ATMs was held and the International Bank of Azerbaijan and Capital Bank won the tender. As a result, 150000 pensioners have been provided with plastic cards in Baku and Sumgait.

Structural changes in the management of the SSPF have been made to the management of the pension system. The structural changes have been made in local branches of the Fund and a new structure has been established in line with the relevant Order of the SSPF dated January 28, 2004. The central structure of the SSPF has been upgraded in line with the relevant Order of the SSPF dated October 12, 2004 according to the Law of AR on "Civil Service". A new management structure will provide immediate feedback on any issues, as well as quick and efficient implementation of activities.

In line with the "Concept on reform of the pension system in the Republic of Azerbaijan", approved by the Order of the President of AR dated July 17, 2001, changes and amendments were made to the draft laws on "Social Insurance" and "Pension Provision to the Citizens" and legislation was introduced to improve the pension provision of the pensioners⁸⁶ with a number of categories. The revised version of the Law of AR on "Pension Provision to the Citizens" was prepared, and agreed with the relevant ministries and organizations. The proposals were submitted to the Presidential Office for consideration by the CM. The Law of AR on "Pension Provision to Civil Servants" was adopted by Milli Majlis.

A concept to establish a system of individual accounts for those insured, (with full coverage and including all the regions) was prepared in 2003 with technical assistance from the WB and feasibility studies were done. The necessary measures are currently being implemented to facilitate the introduction of a system of individual accounts in the country. Thus, in line with the agreement⁸⁷ signed between the SSPF and the UNDP, a project on "Capacity Building of the SSPF" has been prepared. Implementation of this pilot project, which includes both creation of the system of individual accounts and its preliminary components was launched in November 2003. The documents needed for the introduction of a system of individual accounts in the northern regions⁸⁸ have been prepared in line with international standards. The relevant regional branches of the Fund have been provided with computers and a main server to collect data throughout the Republic. Installation of a communication link between the regional branches and the main server is currently underway. Consultations, as well as various seminars and training sessions on the introduction of individual accounts have been held in the pilot regions. The relevant regional branches of the SSPF have been provided with the forms to be used. At the same time, sample application forms for registration of individual accounts have been distributed among individuals and legal entities in the pilot regions. Registration of legal entities and individuals will be launched at the second stage, once

⁸⁶ Disabled of Chernobyl accident, judges, members of Milli Majlis and etc.

⁸⁷ The agreement was signed in September 17, 2003.

⁸⁸ Absheron, Khyzy, Siyazan, Davachi, Guba, Gusar and Khachmaz regions are included here.

the necessary work has been completed. The information on employment and income will be recorded on computers and collected on the central server of the SSPF. Following the introduction of the system, pensions for the citizens will be fixed in line with existing legislation, and the data on the wages of those insured over the last two years recorded in the system of individual accounts. Improvement of the database on pensioners has been continued and introduced in a number of regions.

Work has started on increasing efficiency in the collection of compulsory state social insurance fees. Thus, "Rules of restructuring overdue payments for compulsory state social insurance of insurers to the SSPF" have been approved by the relevant Resolution of the CM dated April 14, 2004. This was done in order to make sure that there will be a complete accounting system of legal entities and individuals and to establish procedures to make court decisions against organizations and to improve existing legislation. At the same time, to increase efficiency further, "Rules of using state securities, including loans and bills of other agencies for payment of compulsory state social insurance fees to the SSPF to be made by insurers, who are legal entities, when they are eliminated" have been agreed with the SSPF and confirmed by the State Committee for Securities under the President of AR in May 26, 2004.

An action plan has been prepared to increase the rate of collection of compulsory state social insurance fees. The program is currently introduced at the local branches of the SSPF. It has been introduced as a pilot program at Absheron District Branch of the Fund and yielded positive results. The Program is being upgraded to include additional parameters. It will facilitate more precise forecasting for the collection of the social insurance fees, changes in the number of pensioners, and the amount of funds to be spent. Furthermore, it is envisaged to improve existing legislation in this field in 2005.

In order to enhance the social protection of underprivileged people, pensions (for a total of 1087000 people) were increased in August 1, 2003. Additional funds of 89.4 bln. AZM were allocated from the state budget in 2003. The relevant Decree "On improvement of the social protection of pensioners" was issued by the President of AR in December 29, 2004. The Decree states that the minimum amount of pensions and benefits for the unemployed pensioners has been fixed at 125000 AZM (65000 AZM for the disabled of the III group) together with all additions and benefits⁸⁹ from January 1, 2005. Consequently, additional funds of 114 bln. AZM have been envisaged in the state budget. At the same time, the CM was commissioned to adopt the relevant resolution to increase the ratio applied to re-calculation of average monthly wages from April 1, 2005. This ratio has been taken as a basis for the calculation of pensions paid from January 1, 1993 onwards. The minimum wage level was increased in line with the relevant Decrees of the President of AR: from 27500 AZM to 45000 AZM from September 1, 2003; to 60000 AZM from January 1, 2004; to 100000 AZM from July 1, 2004 and to 125000 AZM from January 1, 2005. Additional funds of 268 bln. AZM are envisaged in the state budget in order to cover the increase in the minimum wage level. In general, increase in the minimum wage had a positive impact on improving the welfare of more than 537000 employees. A Resolution was issued by the CM to regulate monthly wages of employees of several state-funded organizations in January 27, 2005.

■ *Pension and social assistance project*

The project "Supporting reforms of the pension and targeted social assistance system" was approved by the relevant Presidential Order of November 11, 2004. The timeframe for project implementation covers 2004-2009 and the total cost of the Project is estimated at USD 15.1 mln. The share of the World Bank⁹⁰ and state budget/SSPF in co-financing the project costs is 2/3 and 1/3 respectively. The main goal of the project is to create a sustainable pension system and capacity building to enhance targeted social assistance to the underprivileged. The project includes 3 components: i) to support material well-being surveys to carry out targeted social welfare programs based on enhanced social assistance management; support to implement a targeted social protection program, capacity building to create a Management Information System at the MLSP to analyze the targeted social protection policy; ii) renovate regional branches of the SSPF and provide them with equipment; provide technical

⁸⁹ Except for the fixed monthly benefits for utilities, transport and other services.

⁹⁰ A loan agreement of USD 10 mln. was signed between the Government of the Republic of Azerbaijan and the WB in May 2004.

assistance to create a Management Information System and arrange training to create an efficient and transparent pension management system at the SSPF; iii) the third component covers project management, monitoring and evaluation. The preparatory work has already been launched for project implementation.

■ *Improving the legislative framework*

Measures have been implemented for joining the European Social Charter⁹¹. Thus, the Charter's articles (to be ratified) have been comprehensively analysed and the national regulatory and legislative documents related to monitoring and improvement of the legal framework of the labour and social legislation have been adjusted to the norms of the European Social Charter. This includes remuneration of labour, labour relations, employment, migration, social security and social assistance. Relevant proposals have been submitted to the Milli Majlis⁹².

■ *Improving population development*

A State Commission for Coordination of population development issues was established through the Presidential Decree of June 23, 2003. The relevant Programme was developed and approved by the Presidential Order of November 11, 2004. Population Development Research Center was established within the Scientific Research and Training Center for Labour and Social Problems with support from the UNFPA.

According to the Presidential Decree "On Establishment of the State Registry of Citizens of the Republic of Azerbaijan" issued in February 21, 2004, a Regulation for "Keeping the State Registry of Population of the Republic of Azerbaijan" was approved through the relevant Presidential Decree in October 14, 2004. A State Service for Registry of Population has been established under the Ministry of Justice. It is envisaged that the CM will develop a draft Law "On the State Registry of Citizens of the Republic of Azerbaijan".

■ *Social integration of the most vulnerable groups of the population*

Repairs were carried out to a rest-home for the War and Labour disabled in Bilgah, boarding house No 7 in Saray, Boarding school No 9 in Buzovna, boarding house No 1 in Shamakhy and boarding house No 3 in Mardakan, using both local funds and various types of assistance. An agreement was signed to rehabilitate the boarding house No 8 with 150 seats in Khanlar region with technical assistance of the EC and the repairs have been launched. A tender was held for the renovation of boarding house No 3 in Khatai District, boarding house No 1 in Shuvalan settlement, boarding house No 1 in Mashtaga settlement and boarding house No 18 in Pirshaga settlement and agreements have been signed.

The following medical centers have been put into operation during the last period of time for the treatment of the disabled: Medical Treatment Centre with 250 places in Shaghan settlement, Ganja branch of Prosthetic and Orthopedic Rehabilitation Centre and the Medical Treatment Centre for the Disabled of the War. Construction of the Child Rehabilitation Centre in Baku City, rehabilitation centers for the disabled with 20 beds in Nakhchivan and with 14 beds in Ali-Bairamly has been completed. Project-design documents of a rehabilitation center to be built in Sumgait have been prepared. A contract with the company selected through an open tender has been signed and construction work started. In addition, project-design documents to carry out building and assembling operations for the construction of a rehabilitation center and Paraolympic Sport-Health Center in Shaki have been prepared.

In line with the Law of AR "On social service to the elderly people", a special uniform for the employees and rules on compensation for their transport costs were approved under the relevant Resolution issued by the CM in February 6, 2003. At the present time, Heads of the Regional Departments under the MLSP in 74 regions and cities, 38 senior specialists and 1621 social employees provide 15289 lone elderly citizens and disabled persons with

⁹¹This is within the framework of "the State Programme on introduction of the norms stipulated in the European Social Charter" approved by the Resolution of the President of the Republic of Azerbaijan of April 7, 2003.

⁹² 18 articles out of 31 of the European Social Charter (1, 4, 5-9, 11, 14, 16, 20-22, 24, 26-29) have been ratified by the Milli Majlis in January 2004.

social services in their houses, at least twice a week. 509 mln. AZM was spent as a one off payment to 610 people for medical treatment. The figure also covered repairs of apartments, arrangement of funeral ceremonies and other issues in 2003. This was for improving the social protection of the disabled who are in need of care and assistance, especially, the lone disabled, women disabled and the families of disabled with two and more members. A one off payment in the amount of 540 mln. AZM was provided to 886 people during 2004 for repair of apartments, mourning ceremonies and other issues. In addition, help is provided to lone elderly people and the disabled by relevant executive committees, better-off organizations and businessmen. This is done through food parties on holidays and food assistance.

Medical, social and professional assistance is currently being implemented by the MLSP to improve the social status of the disabled, ensure their financial independence and their re-integration into society. Instructions have been prepared by the Institute of Aesthetics and approved to install equipment in transport and public places that will improve life and working conditions for the disabled.

Blocks of flats are being built to cover the needs of the disabled in apartments (mainly, disabled of the Garabagh war, the disabled of 20 January Tragedy and the families of martyrs). In 2003, a three-story block of flats with 48 apartments in Ganja, a two-story block of flats with 18 apartments in Ali Bairamly, three-story block of flats with 27 apartments in Ismailly region and a four-story block of flats with 36 apartments in Sumgait were built. At the same time, 22 disabled of the Garabagh war were provided with private double-room houses. In 2004, construction of a four-story block of flats with 36 apartments in Sabunchi District of Baku, a three-story block of flats with 21 apartments in Goychay town, a two-story block of flats with 16 apartments in Guba, a three-story block of flats with 30 apartments in Lankaran, a two-story block of flats with 16 apartments in Mingachevir and 30 private houses in rural areas were completed and put into use. Construction of a four-story block of flats with 36 apartments in Yasamal District of Baku and a two-story block of flats with 16 apartments in Yevlakh town is progressing⁹³.

Preparations are being made to create a single system of information for the disabled. This will cover many issues pertinent to the disabled and their families, including families of martyrs. A special questionnaire has been prepared with 73 questions. Furthermore, a database, has been designed and relevant software has been prepared. Information concerning 270000 registered disabled, their privileges and assistance, and information on 30000 families with 2 and more disabled has been collected, systematized and included in the database. A website of the disabled has been designed and launched to identify the disabled who need more assistance (intellectuals, craftsmen) and to help disabled people to find a job, set up unions of mutual interest and cover various measures and activities related to the accomodation.

■ *Undertaking relevant measures to re-integrate children in institutions to their biological or foster families*

International experience in this field is being studied and the National Conference "Children, under State Custody in the Republic of Azerbaijan: de-institutionalization and alternative care" (a joint initiative of the Ministry of Education and the UNICEF) was held in April 2004. Existing problems were revealed and proposals put forward during the Conference. At the same time, an inter-ministry working group on de-institutionalization was established to develop the General Action Plan with regard to strengthening the state policy in this field. In addition, with support from UNICEF, a pilot project on establishing alternative child centers, re-integrating children in the families, as well as providing social assistance to the families was held.

A new building of Baku SOS Kindergarten was put into use to ensure integration of children into society from an early age. Admission of children living near this facility started in early 2003. A total of 82 children are educated in the kindergarten: 21 – from SOS Child Village and 61 – from other families. Construction of SOS Child Village in Ganja City was launched in August 2004. Ganja SOS Child Village will be put into operation in spring of 2005 and will provide 100 children deprived of parental care with comprehensive care.

⁹³ Thus, 20 blocks of flats and 150 private houses have been built from 1997 onwards in various cities and regions of the Republic and about 900 disabled of the Garabagh war, "20 January Tragedy" and Chernobyl accident were provided with these apartments.

A Development Program for 2005-2009 was approved by the relevant Resolution of the CM in February 3, 2004 to improve the education of children who are in need of special care (with limited health opportunities) in the Republic of Azerbaijan. The Program will be implemented through the funds allocated from the state budget, technical and financial assistance of international organizations and foreign countries, municipal funds, assistance of NGOs, foreign investments, public funds and local businesses. The following will be achieved as a result of Program's implementation: i) the legal and regulatory framework for the education of children who need special care will be improved; ii) teaching and education for children of all the categories will be improved; iii) physical and technical infrastructure and training basis will be strengthened; iv) training of the teaching staff for the specialized educational facilities will be improved, curriculum and the syllabus, textbooks and training aids for these facilities will be prepared; v) modern management mechanisms will be applied at the specialized educational facilities, management systems will be improved, modern monitoring and evaluation mechanisms will be applied at the educational facilities.

Measures are being implemented to improve the qualification of employees working at two boarding houses for mentally retarded children under the MLSP. Thus, special training for employees is being held by the United Aid for Azerbaijan humanitarian organization to apply active therapy for treatment of the children. Other employees are involved in re-qualification courses or advanced training. At the same time, training courses have been organized by Japanese specialists for the medical staff of the Rehabilitation Center for the Disabled including the Child Rehabilitation Center.

Combating trafficking in human beings: A "National Action Plan to combat trafficking in human beings in the Republic of Azerbaijan" has been drafted by the Government of Azerbaijan with joint participation of the OSCE and IOM and approved by the relevant Presidential Order dated May 6, 2004. The Action Plan brings the following into focus: i) improvement of the legislative framework on combating human trafficking; ii) coordination of activities of participants involved in the National Action Plan; iii) establishment of a special police force to combat human trafficking; iv) establishment of a safe shelter and telephone help line; v) information and other related measures.

Refugees and IDPs

■ Background

One of the strategic goals of the SPPRED is to improve the living conditions of and opportunities for refugees and IDPs. With a view to achieving this, the following objectives have been identified:

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

During 2003-2004 the following measures have been implemented to achieve these objectives:

■ Improving the social conditions of refugees and IDPs



Table 4. 1

In order to improve the living conditions of the refugees driven out from their native lands as a result of Armenian aggression, 986 families of refugees have been provided with houses through the funds from the SOFAR (see the table 4.1). In addition, 320 houses for refugees, which had been left unfinished since 1995 were completed. Rehabilitation of 42 houses in Gadabay region and 364 houses in Ashaghi Aghcha village of Goranboy region were completed as part of the repairs to 1000 houses damaged during the war.

<i>Region/city</i>	<i>Number of families provided with houses</i>
Baku	268
Shamkir	126
Nakhchivan AR	101
Goranboy	364
Aghstafa	17
Yevlakh	65
Ismaily	45
Total	986

A total of 27 new settlements⁹⁴ with appropriate facilities have been built over the last period providing housing for 5081 IDP families (22841 persons) who were living in the tent camps and railway wagons. Resettlement of IDPs to these settlements has been completed. In addition, resettlement of 412 IDP families (1895 persons) from Mingachevir Rowing Sport Center has been completed with support of the ADB.

A total of 37 facilities temporarily populated by 2960 IDP families in Baku, Sumgait and Ganja cities have been repaired. In addition, 36 micro-projects have been implemented⁹⁵ to repair 36 dormitories/public buildings, which are temporarily populated by IDPs in Baku, Sumgait, Mingachevir cities, Gazakh and Gabala regions by the SDFIDP. Micro-projects have been financed by the soft credits allocated by the WB and community investments.

New State Programme: In July 1, 2004 the “State Programme on Improving the Living Conditions of Refugees and IDPs and Increasing Employment” was approved by the President of the Republic. The aim of the State Programme is to improve the living conditions of IDPs driven out from their native lands as a result of Armenian military aggression against the Republic of Azerbaijan and settled in tent camps, railway wagons and places unsuitable for residential purposes. The programme also aims to create jobs and address social problems. The Programme covers 2004-2007 and envisages improvements of the living conditions of 22921 families or 110000 IDPs including rehousing 21354 families in the new settlements and repairing the public buildings temporarily inhabited by 1567 families. At the same time, the Programme envisages the creation of 30000 new jobs (25000 within construction activities and 5000 at newly established small workshops). The resettlement of 3674 IDP families in Aghdam region, 149 IDP families in Barda region and 37 IDP families in the territory of Lachin Takhta korpu has already started.

The IDPs economic development support project: On February 15, 2005 the Board of Directors of the WB approved allocation of USD 11.5 mln. soft loan for financing the IDPs economic development support project. The main goal of the project is to improve the living conditions of the IDPs, strengthen their economic capacities and create the prospects for social integration of IDPs. The project has 2 main components: i) microprojects (about 200 microprojects of up to USD 50000 will be financed) and microcredits (will be mainly aimed at income-generation areas).

■ *Upgrading the infrastructure in IDP camps consisting of prefab houses*

For the purpose of improving the infrastructure in the settlements consisting of prefabs, inhabited by the IDPs, the following measures were jointly implemented in 2003-2004 using funds from the SOFAR, soft credits allocated by the WB and technical assistance provided by the Islamic Development Bank, EC and other donors:

- 40000 metres of cable unfit for operation and 83000 metres of electricity lines have been replaced and 70 power transformers replaced with new ones;

⁹⁴ 4 of these settlements have been built in Aghdam, 10 – in Fuzuli and 13 – in Bilasuvar.

⁹⁵In order to solve the social problems of the IDPs, a soft loan in the amount of USD 10 mln. has been allocated to Azerbaijan by the WB. 153 micro-projects have been implemented over the last period through this loan and more than 150,000 IDPs benefited from this.

- Repairs of the energy system in Goranboy region have been completed. Thus, 2 sub-stations (35/10 and 110/35/10) with capacity of 16.3 MVA; 60 km of 10 kV and 100 km of 0.4 kV overhead transmission lines, including 39 transformer substations with capacity of 5245 kVA have been installed. As a result, a stable energy supply to the population of Gulustan (part of the region with 20000 people) has been ensured;
- Repairs of the energy systems of Gadabay, Khanlar and Tartar regions have been completed. A total of 3 substations (35/10 kV), each with capacity of 2.5 mVA and 1 substation (110/35/10 kV) with capacity of 25 mVA, as well as 30 km length transmission lines of 0.4-10 kV, 21 km length transmission lines of 35 kV and 14 transformer substations with capacity of 3700 kVA have been installed. Energy supply to approximately 70000 people has been improved;
- Construction of 110 kV Beylagan-Shukurbayli transmission lines was completed in the second quarter of 2004 and the new overhead transmission line with 52 km length has been built. As a result, energy supply to the area with 80000 people has been improved;
- 6 kV power lines of 3.6 km length and 0.4 kV power lines of 10.99 km length, including 5 power transformers with total capacity of 2930 kVA have been replaced in Baku city and Absheron District in the areas densely populated by the IDPs. As a result, energy supply to 2163 people has been improved;
- 57 water pumps have been installed, 496 wells have been repaired in Aghdam, Tartar, Goranboy and Aghjabadi regions. 133 wells are being repaired using the saved funds. As a result, 629 subartesian wells provide 10000 families with irrigation water and provide irrigation for 18000 ha of land;
- Khyndyrystan pumping station and 18 km length of pressure pipes have been built in Aghdam, Gazakhlar pumping station and 7.2 km length of pressure pipes built in Fuzuli region. 2000 families benefit from this;
- Sub-artesian wells have been dug in Fuzuli, Khyzy, Lachin/Takhtakorpu and Sharur regions – 1 well in each region, 23,24 km pipelines and two water towers with overall capacity of 40 m³ have been constructed. A total of 1789 people benefited from this;
- 3.27 km effluent disposal pipes have been repaired in Baku and 10.05 km collector and drainage network has been repaired in Beylagan region;
- 6.35 km distribution pipelines and 4 units of gas control points have been installed in Baku city and Gazakh region;
- With a view to improving road access to Harami plain in Fizuli region (a settlement with 5000 people), the construction 38 km length road with gravel-sand coverage has been completed. At the same time, 4.7 km length road has been constructed in Lachin/Takhtakorpu region and 473 people benefit from this;
- Inter-settlement roads of 74.2 km length have been repaired;
- 7 prefabricated tents (together with the equipment) for wedding and mourning ceremonies have been provided to the IDPs living in hard conditions in Beylagan, Sabirabad and Lachin/Takhtakorpu regions and a community support centre has been repaired in Mingachevir city;
- A total of 375 heads of cattle in Goranboy region and 2058 heads of cattle in Fuzuli region were distributed among the IDPs;
- A total of 92000 IDP families temporarily settled in the cities and regions with no natural gas supply were provided with kerosene (30 litre for each family) by the relevant regional executive authorities in autumn-winter season. The relevant Resolution of the CM envisages to provide these families with 40 litres kerosene from 2005.

■ *Addressing the employment problems of IDPs*

Work aimed at addressing the employment problems of the IDPs resettled in new settlements has been completed: it includes allocation of plots of land (1 ha) to 5081 families for farming purposes and grant assistance (1 mln. AZM). All the families resettled to the new settlements received this grant. As a result, more than 6000 jobs were created in the new settlements. More than 5000 people (provided with new jobs) are working on the plots of land allocated to them, while 1000 persons are working at the budgetary organizations. To encourage the micro-credit provision for the development of small and medium entrepreneurship among the IDPs, 1107 credits to legal

entities and 8021 credits to individuals have been provided within the framework of the credit programme of the SDFIDP as of November 1, 2004. In total, about 7000 IDPs benefited from the micro-credit programme⁹⁶.

■ *Providing education to IDPs children*

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

A total of 18 schools and 18 pre-school institutions have been built in the newly built settlements and provided with the necessary equipment. In addition, 12 micro-projects related to the construction of the new school buildings with 1077 seats and repairs of existing schools have been implemented by the SDFIDP. Thus, 3 school buildings with 485 seats have been built in Baku and Sumgait cities; a chess school in Baku provided with equipment; 2 schools have been repaired and a school building with 112 seats has been built in Barda region. In addition, 2 school buildings with 216 seats in Absheron District and 2 school buildings with 168 seats in Aghjabadi region have been built.

Repairs of IDP schools with 1404 seats in Aghdam and Fuzuli regions was completed in 2004. The schools were also provided with the necessary equipment. Repair work at 10 schools with 5992 seats in Goranboy and Khanlar regions has been completed: the schools have been provided with furniture and equipment. In addition, a school building with 192 seats has been built in the settlement of 65 houses in Yevlakh region.

■ *Improving health care services to refugees and IDPs*

16 new health facilities (14 health stations, 2 out-patient facilities) have been built at the newly established settlements and provided with necessary equipment. In addition, repairs of 8 medical institutions in Goranboy region and 3 medical institutions in Khanlar region were completed in May 2004. Furthermore, 2 hospitals with 47 beds and 5 health stations, including 4 rural out-patient facilities were provided with the necessary furniture and medical equipment. This has led to improved access for 30000 persons to health care services.

The SDFIDP has rehabilitated the health centre in Barda region providing services to IDPs through the soft loan allocated by the WB. As a result, access of 1272 IDPs to the health care services has been improved. In addition, a health station has been built in the settlement with 65 houses in Yevlakh region.

■ *Improving food provision to IDPs*

Provision of more than 525000 IDPs settled in 68 regions of the country with monthly food benefits has continued. The amount of the monthly food benefits has been increased from 25000 AZM to 30000 AZM from January 1, 2005 in line with the relevant Order of the President of AR issued in December 29, 2004. In this regard, additional funds amounting to 30 bln. AZM is envisaged in the 2005 state budget. In addition, monthly food assistance has been given to about 145000 IDPs within the framework of the WFP. However, financial difficulties have emerged concerning continuation of the food assistance in 2005 within the framework of the WFP. Negotiations to solve the problem are continuing. Suspension of assistance to 145000 IDPs will have a negative impact on their well-being.

214258 IDPs were deprived of food assistance provided previously by the international humanitarian organizations in 50 regions of the country because these organizations have suspended their activity over the last years. The process of providing the above-mentioned IDPs with necessary monthly food has continued with the

⁹⁶Generally, about 7,000 persons have benefited from 9,128 micro-credits and it is explained by the fact that some customers obtained micro-credits 2-3 times.

funds allocated from SOFAR. In addition, the relevant Resolution of the CM envisages to continue provision of the monthly food assistance to 146500 IDPs using budget resources from 2005 onwards.

■ *Ensuring financial transparency*

Payment of funds to refugees and IDPs through the State Treasury has begun. This is important in order to record these funds in the State Budget and ensure financial transparency. The relevant measures have been implemented to keep to the requirements of the Law of AR "On State Procurement".

Chapter 5. Regional Policy and Infrastructure Development

Public investments in utilities and infrastructure

■ *Background*

As stated in the SPPRED, development of the infrastructure in the regions will give an impetus to the development of the non-oil sector and regions themselves. To achieve this, the following objectives have been set in the Policy Matrix of the Strategy:

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

Progress in implementing the policy measures within the above mentioned objectives is as follows:

■ *Rehabilitating transport infrastructure*

To rehabilitate the highway system, the following work was carried out in 2003-2004 with support from the State Budget: major repair of Baku-Alat highway; 9-55 km of Baku-Gazakh-Georgia and 50-62 km of Garamaryam-Shaki-Ismailly highways; reconstruction of Bilasuvar-Iran state border highway; repair of 19 km-length Hojasan-Lokbatan highway and major repair of Baku-Sumgait highway. Rehabilitation of Alat-Gazimammad highway was completed with credits from the Kuwait Fund and IsDB. In addition, reconstruction of Yevlakh-Ganja⁹⁷, Ganja-Shamkir, Ganja-Gazakh-Georgia highway systems was carried out with the help of WB credits. Construction of reinforced concrete bridges on the Shamkir and Hasansu rivers, which are part of the Ganja-Gazakh highway and included in the Great Silk Road, was completed on May 30, 2004. The overall cost of this project financed by the EU TACIS Program was 1.5 mln. Euro. The relevant measures have been implemented as part of the rural roads development project and an allocation of an additional USD 1.2 mln. from the remaining resources was approved.

Rehabilitation of the Trans-Caucasian railway was completed in 2003. Trilateral negotiations continued as part of the preparation of a feasibility study and cost estimates for the construction of a new Astara (Iran) – Astara (Azerbaijan) railway.

Reconstruction of the Baku International Sea Trade Port continued using port's resources. Reconstruction includes the repair of the Seaport Building and the bridge in Bara terminal.

Reconstruction of Nakhchivan airport was completed. The airport was put into operation at the beginning of 2004. An additional 15 bln. AZM were allocated from the state budget to complete the work.

Construction of "Hazi Aslanov" underground station was completed and put into use in the first quarter of 2003 with support from the EU.

A fleet of underground carriages was repaired in 2003. Funds (40 bln. AZM) have been allocated from the State Budget for the purchase of railway cars and for further continuation of work in 2004.

■ *Water and sewerage*

⁹⁷ A Loan Agreement of USD 10 mln. for the rehabilitation of Yevlakh-Ganja highway between the Government of Azerbaijan and Islamic Development Bank was signed on March 10, 2005.

Rehabilitation of the Great Baku water system is nearly completed and the WB has allocated additional funds amounting to USD 12 mln. to ensure that it can withstand any earthquake impact.

Work on the “Great Baku water supply reconstruction” funded through the WB loan of approximately USD 74 mln. continued. The project aims at carrying out short-term urgent improvements in the water supply system, improving overall water supply to the city and creating a basis for a long-term planning and rehabilitation. The project covers water needs management, improving the use of the system and supply, strengthening capacity, research and supervision.

The implementation of measures aimed at the reconstruction of the sewerage system in Baku City, started in 2003 and continued in 2004.

It is planned to improve the drinking water systems in Balakan, Zagatala, Gakh, Gusar and Maraza by using funds provided by the EC. Reconstruction of Imishli regional water supply system was completed with support from the KfW amounting to 14.8 mln. Euro and saved resources have been used to improve water supply systems of Ganja and Shaki.

Reconstruction and rehabilitation work was launched in Aghdash, Goychay and Nakhchivan at the end of 2004 to improve the water supply and sewerage system with the help of an ADB loan⁹⁸.

■ *Melioration and irrigation*

As part of the project on reconstruction and rehabilitation of irrigation and drainage infrastructure in Azerbaijan, rehabilitation of Samur main headwork was completed using funds supplied through an IDA credit. Preparatory work for the rehabilitation of the first 50 km of Samur-Absheron canal⁹⁹ and reconstruction of 102 km length of Samur-Absheron canal and inter-farm canals has started. A total of 20.5 km length of canal in Gusar region, 45.2 km – in Khachmaz region and 12.8 km – in Guba region have been repaired. The measures to be implemented will increase the discharge capacity of Samur-Absheron canal, prevent water loss, and improve the water supply to 20400 ha of irrigated areas and extend irrigation to include another 1100 ha of new areas. A Memorandum of Understanding on financing the construction of Valvalachay-Takhtakorpu section of Samur-Absheron canal was signed with IsDB, SFD and OPEC Fund in 2003. A loan agreement of USD 10 mln. between the Government of Azerbaijan and Islamic Development Bank for the reconstruction of Valvalachay-Takhtakorpu part of Samur-Absheron canal was signed on March 10, 2005. Construction of a siphon at an intersection of the main Mil-Mughan Collector and Araz River was completed and the construction of the third part of the last 31 km of the collector is continuing. A total of 6.4 km of the collector was dug, 3 bridges and 2 aqueducts were built at the intersection of Baku-Nakhchivan railway and highway in Saatly region. 6.4 km of the road along the collector was covered with sand and gravel and a 2.6 km-part was asphalted. A total of 10.8 km of irrigation canals and 8.7 km of water collecting canals were built. It is envisaged to improve the ameliorative status of 60000 ha of irrigated lands, as well as put a short motorway between Saatly and Kurdamir towns into operation. Following the construction of the collector, salination will be prevented on 500000 ha of area and it is expected that agricultural production will increase 30-40%.

Construction of the first part of Khanarkh canal (37.5 km) (a total of 19.1 km in Gusar region and 18.4 km in Khachmaz region) and hydro engineering devices on the canal has been completed. Water supply to 18.5 thsd. ha of area in Gusar and Khachmaz regions has been improved since December 18, 2003 by putting this part of the canal into operation.

Construction of 29.7 km of the second part of Khanarkh canal (13.9 km in Khachmaz region and 15.8 km in Davachi region) through the IsDB loan has started. A concrete coverage was laid down at 11.1 km of the canal. Construction of an aqueduct bridge over the Agchay river, 11 bridges, 17 aqueducts and 4 underground passages

⁹⁸ USD 30 mln.

⁹⁹ 27 km in Gusar region and 23 km in Khachmaz region.

have been completed. Water supply to 44 thsd. ha of area in Khachmaz and Davachi regions will be improved by putting the canal into operation. A total of 1.8 bln. AZM have been allocated from the state budget for the construction of the second part of the canal.

Construction of 29.5 km of 33.4 km-length Shamkir-Mashin canal has been completed. In addition, construction of 4.7 km of a reinforced concrete canal line, 2 bridges, hydraulic units and 950 m of tunnel has been implemented through the funds of the EC. Construction of the unfinished 1 km of the canal to the Ganjachay aqueduct was completed in 2004 with support from the SOFAR (USD 280000). As a result, irrigation of 76.6 thsd. ha of area in Shamkir, Khanlar, Samukh and Goranboy regions and rehabilitation of 19.1 thsd. ha of newly irrigated lands and 57.5 thsd. ha of the irrigated lands will be possible.

Construction of Vaykhir water reservoir in Nakhchivan AR started in 2003 and continued through 2004. Construction of Vaykhir water reservoir will improve the irrigation of 6.9 thsd. of new lands and ensure water supply to 9.9 thsd. ha of irrigated lands in Babak, Shahbuz and Julfa regions.

■ *Energy*

Construction of a gas pipeline from Garadagh to Shimal Power Plant and Garadagh compressor pump was completed in 2003.

Design estimates have been prepared for the reconstruction of underground gas storages and expansion of their capacity. It is envisaged to increase the capacity of these storages to 3.5 bln. m³.

An agreement¹⁰⁰ was concluded with the Islamic Republic of Iran to rehabilitate a gas supply system in Nakhchivan AR and cost estimates have been prepared. A tender with participation of both Russian and Turkish and local companies was completed. Two more tenders were announced in 2004 to rehabilitate a gas supply system in Nakhchivan AR; both tenders related to the purchase of gas stoves, computers and equipment were completed.

■ *Increasing oil and gas export potential*

A total of 9500 persons have been involved in activities carried out in the country since the date of signing the "Contract of the century". 60 mln. person-hours have been spent and 80 local enterprises have operated as contractors. A total of USD 9 bln. investments have been made to the oil projects implemented in Azerbaijan.

A joint meeting of the ministers of energy of the Central Asian countries, as well as Turkey, Russia, Iran, Azerbaijan and Georgia was held in Baku on November 12-13, 2004. The issues related to a safe transportation of the Caspian energy resources to Europe were discussed at the meeting.

Construction of the BTC main oil export pipeline, which is an important part of the new oil strategy of Azerbaijan, continued in 2004. The BTC, which is considered the biggest export route of the XXI century will transport the oil produced in the Azerbaijani sector of the Caspian Sea from Sangachal terminal located in the southern part of Baku City through Georgia to the new sea terminal in Jeyhan located on the Mediterranean coast of Turkey. It is planned to transport the oil from this terminal to international markets. The BTC main export pipeline is managed¹⁰¹ by the BP company, which is involved in large oil and gas projects in a number of regions of the world. This major pipeline will be 1762 km length, and is the longest oil export route operated by the BP company. It is envisaged to transport 1 mln. barrels (approximately 50 mln. tons) of crude oil annually by the pipeline. The pipeline is expected to work with maximum transportation capacity from 2009 onwards. Capital expenditures initially estimated for the BTC main export pipeline made USD 2 bln. 950 mln. The total cost of the pipeline is USD

¹⁰⁰ It is planned to build Nakhchivan-Jahri medium pressure gas pipeline in order to improve gas supply in Nakhchivan AR.

¹⁰¹ The BP, SOCAR, UNOCAL, Statoil, TPAO, ENI, Total, Itochu, INPEX, ConocoPhillips and Amerada Hess companies are the organizers of the BTC project.

3.6 bln. including filling and financing expenditures. This amount has increased by 10% due to the recent increase in the world oil prices. A ceremony on the connection of Azerbaijani and Georgian parts of the main export pipeline named after Heydar Aliyev was held on October 16, 2004 near the border between Boyuk Kasik village of Aghstafa region of Azerbaijan and Gardabani region of Georgia. Both heads of the states participated in this ceremony, which was called "Golden Weld". A total of 99 percent of the pipeline has been welded, more than 90 percent of the corridor with the pipes laid in a ditch was covered in 2004. More than 17000 persons are engaged in the construction of the BTC main oil export pipeline in Azerbaijan, Georgia and Turkey. More than 80 percent of 2500 employees in Azerbaijan are local citizens. In total, 22000 persons were involved in the implementation of the project in all three countries during the intensive period of work in summer 2004. BTC pipeline, the foundation of which was laid in September 2002 will be put into operation in the second half of 2005 and thus, will transport Azeri oil to the world market. It is planned that the first tanker will leave the port of Ceyhan at the beginning of October. The Azerbaijani part of the pipeline will be fully completed at the end of March – beginning of April. Covering pipelines with soil in the mountain areas of Georgia will be completed by the midst of May 2005. It is planned to complete the part of the pipeline passing through the territory of Turkey by the end of June. A total of 98% of work has been finished in the Turkish port of Ceyhan. Due to the recent problems (delays) in the construction of the pipeline, transportation of oil produced by the Azerbaijan International Operating Company from the central Azeri oil deposit to world markets has been carried out through alternative pipelines (Baku-Supsa and Baku-Novorossisk) since February 2005.

Construction of the Azerbaijani section of the South Caucasus Gas Pipeline has been launched and the first export of the gas is planned for 2006. Welding operations have started at the 213-km point located approximately at the middle of the pipeline between Sangachal and Azerbaijani-Georgian border. Major operations will be continued within a 10-month period and approximately 39000 pipes on the Azerbaijani part will be welded within this period. Completion of the South Caucasus Gas Pipeline is expected in the fourth quarter of 2005.

■ *Increasing existing capacities and building new power-generating units*

The feasibility study for the reconstruction of Azerbaijani Power Plant and rehabilitation of the 1st and 8th units is being currently prepared by the U.S. company "PA Consulting". At the same time, "Azerenergy" held a tender for the rehabilitation of the 5th unit of the Azerbaijan Power Plant. The Russian company "Silovie mashini" has won the procurement procedure held for the 5th unit and an agreement was signed with this company.

A tender to select technical and financial consultants for the construction project of Steam-Gas Plant with capacity of 400-500 MWt at Sumgait Thermal Power Station was held. Both technical and financial consultants were selected and relevant contracts concluded.

A feasibility study for the construction of the II Steam-Gas Plant with a capacity of 400 MWt in Shimal Power Plant was prepared in November 2002. Three missions of the Japanese Bank for International Cooperation (JBIC) visited Azerbaijan from December 2002 till August 2003 to allocate credit for the construction of the Steam-Gas Plant. The Japanese company "TEPCO" has carried out a study of the power-engineering system in Azerbaijan by request of the JBIC. Representatives of the JBIC and Japanese government visited Baku at the beginning of November 2004 and discussed the project for a Steam-Gas Plant with 400 MWt capacity. Negotiations are continuing regarding a possible loan agreement.

A feasibility study for the reconstruction of a gas-turbine power station in Nakhchivan AR has been submitted to the Government for discussion. It is envisaged that the natural gas to Nakhchivan AR will be supplied from Iran in 2005.

■ *Rehabilitating power transmission systems*

Within the second stage of rehabilitation of the power transmission sector, the relevant Loan Agreement with a state guarantee was concluded in February 2003 regarding the 1st phase of the reconstruction of 9 substations and a control point of "Azerenergy". This Loan Agreement was approved by the President of AR in June 2003. A

tender procedure was held to select a consulting company and a chief contractor, and contracts were signed with the winners.

“The State Programme for the development of fuel and energy complex in the Republic of Azerbaijan (2005-2015)” was approved by the President of AR on February 14, 2005. The Programme aims to achieve the further development of fuel and energy complex, improving provision of energy resources to the population and economy, and increasing efficiency in the use of energy carriers.

Agriculture, irrigation system, land protection and water resources

■ *Background*

This sector is of great importance for ensuring regional development. A stable development of non-oil sector in rural areas will be achieved through implementation of the objectives stipulated in the SPPRED. The objectives are the following:

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

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

■ *Preparing Rural Development Strategy*

An “Action Plan for the main areas of agrarian development in the regions of the Republic of Azerbaijan for 2004-2008” was prepared by the Ministry of Agriculture in compliance with the measures stipulated in the “State Program for social and economic development of the regions of the Republic of Azerbaijan (2004-2008)”. The action plan mainly envisages expanding private seed-growing, seedling growing, livestock-breeding, artificial insemination, as well as developing small rural processing enterprises.

■ *Reforms in the agrarian sector*

The President of AR signed an Order on “Improving management in the agrarian sector” on October 23, 2004. The Order envisages establishing the State Agency for Melioration and Water Industry, State Veterinary Service, State Phytosanitary Control Service and the State Agency for Agricultural Credits under the Ministry of Agriculture. At the same time, in order to improve provision of the necessary agricultural equipment to agricultural producers the President of AR signed an Order on “Additional measures for expanding leasing in the agrarian sector” in October 23, 2004.

■ *Developing the land market*

Draft “Rules of holding land-lease auctions” and “Rules of holding land –procurement auctions” have been prepared and submitted to the CM to help further development of the land market. Both documents have been prepared in line with the “Land Code” of the Republic of Azerbaijan, including the Laws of AR “On Land Leasing” and “On Land Market”.

10 Regional Land Registration Centers (RLRC) of Scientific and Production Association for the State Land Cadastre and Monitoring under the State Committee for Soil and Mapping have been set up to supervise the registering land transactions (such as procurement, rent, use, inheritance, collateral), collecting information about landowners and users, as well as helping farmers and landowners with the preparation of legal documents and other activities. The physical infrastructure of these RLRCs has been strengthened, and the Centers have been provided with modern equipment and new personnel. At the same time, training has been provided to increase the capacity and skills of employees at the regional centers. A modern electronic communication system between the Committee and its regional centers was established and a common network created.

■ *Regulating credit provision, insurance policy and customs duties for rural areas*

Within the framework of the “Agriculture Development and Credit” project funded through the WB soft loan, non-bank credit institutions provided credits of 8.8 bln. AZM to 308 groups of borrowers (minimum 10 farms in each) in 2003. Credits amounted to 29.8 bln. AZM to 722 groups of borrowers and 7.2 bln. AZM to 20 credit unions in 2004. In general, the project envisages establishing 80 credit unions and 200 groups of borrowers.

■ *Developing mountain areas*

The President of AR issued an Order on the “State Program on effective use of summer and winter pastures, hayfields and prevention of desertification in the Republic of Azerbaijan” in May 22, 2004. In order to implement this Order, the Ministry of Agriculture will prepare proposals to plant greenery in summer and winter pastures; conduct scientific-research activities in this field; train personnel and support management to adjust to the new economic relations. It is also planned to identify the funds required for implementation of measures to ensure the state control over the use, protection and improvement of land, and substantial improvement of summer and winter pastures. There are 7.4 mln. sheep and goats in the Republic and only about 3 mln. of them are kept in winter pastures. A total of 650000 ha of winter pastures (about 2600 thsd. heads of cattle) and 150000 ha of summer pastures (about 1200 thsd. heads of cattle) were rented to legal entities and individuals as of January 1, 2004.

Legal entities and individuals engaged in cattle-breeding, pedigree breeding, artificial insemination of cows, buffalos and heifers in Shamakhy, Ismailly, Goychay, Ujar, Zagatala, Shaki, Gabala, Gadabay, Shamkir and other regions have been provided with advice and recommendations on establishing a private cattle-breeding farm. A project “Establishing seed stock of agricultural animals and expanding artificial insemination network in the regions” was developed within the framework of the “State Program on social and economic development of the regions in the Republic of Azerbaijan for 2004-2008”. It is expected that chicken meat production will reach 30000 tons in 2005. The export of eggs to Georgia and Kazakhstan began in 2004. A pedigree workshop started functioning at “Mardakan broiler” poultry farming. A beekeepers’ harvest festival and a trade exhibition of beekeeping products were held in September 2004 to promote further development of beekeeping.

According to the agreement between the Government of Azerbaijan and the International Fund for Agricultural Development (IFAD), a loan agreement was achieved within the framework of the program “Developing agriculture in mountain areas”. The program has started in 54 villages in 5 regions of the Republic (Shahbuz, Gabala, Lerik, Gadabay and Guba). A Grant Agreement on the project “Developing livestock-breeding for rural women” was signed between the IFAD and Government of Azerbaijan in February 2004.

■ *Protecting land and soil quality*

Preparatory work started in 2003 in the Republic for a large-scale study of lands exposed to water and wind erosion. In addition, the areas likely to be exposed to wind erosion, landslides and non-exogenous influences were identified. The project on protection of lands from erosion and non-exogenous influences was prepared in 2004 and submitted to the CM, as well as related executive agencies. The action plan for 2004-2005 envisages preparation of a major scheme to protect lands, rural settlements, hydraulic units from floodwaters, erosion, avalanches and landslides.

Large-scale (1:2000) topogeodesic and soil research was carried out on 300 ha of oil-polluted lands at Siyazan monocline (Siyazan Oil and Gas Extraction Department). The aim of the research was to plan re-cultivation measures for the lands, where fertility was damaged while exploring minerals and building pipelines in 2003. At the same time, a program to carry out large-scale research was prepared in 2004 for the regions subject to technogenous damage following the exploitation of oil, gas, metal and other collected fossils of the Republic. Technical and biological re-cultivation work was implemented in 0,5 ha of oil-polluted area with 30 cm thickness of bitumen coverage in the territory of 'Gum adasi' Oil and Gas Extraction Department (Hovsan settlement) in the Absheron peninsula. The biological productivity of the lands in the area was restored within a short period of time. A large-scale (1:1000, 1:2000) pre-project topographic and soil research has been launched for the re-cultivation of oil-polluted lands.

■ *Regulating pasture shares*

Large-scale inventory of the land structure in summer and winter pastures (400.9 thsd. ha – winter pastures and 14.1 thsd. ha – summer pastures) was carried out in the Republic in 2003. A large-scale soil and geobotanical study was conducted on 652.2 thsd. ha of natural forage area (in the state and municipal lands). As a result of the research, maps on plant-growing, technical status (degradation, erosion, salination, swamping, desertification, pollution with weed and other uneatable plants, flooding and level of erosion) and quality of pastures were prepared. A large-scale (1:10000) pre-project soil research was conducted (108.7 thsd. ha) in 2004 to increase fertility of all lands in Tovuz, Goychay and Samukh regions regardless of the form of property. A soil map and cartogram of salination were prepared for 684 thsd. ha of area.

■ *Strengthening national veterinary and plant control services*

Major repair was continued at the Khanlar Biological Center to increase production and quality of biological medicines.

The status of infectious diseases in the Republic was under control in 2003-2004. Thus, no infectious diseases were recorded among animals. Regular preventive measures against anthrax, foot-and-mouth disease, smallpox, brucellosis and other diseases were carried out during the reported period.

According to the Order of the President of AR dated June 13, 2003 phytosanitary services have already started to be provided in the Republic under the project "Strengthening phytosanitary services" signed between the Government of Azerbaijan and the UNFAO. The main goal of the project is to make new amendments to existing legislation on phytosanitary services, to adjust it with the provisions of the International Plants Protection Convention, and strengthen technical capacities in plant protection and quarantine.

A total of 282 individual veterinary specialists are engaged in the procurement of medicines and 9 specialists are engaged in the treatment and preventive care of animals. 24 new veterinary stations were established in Aghsu, Aghjabadi, Balakan, Beylagan, Bilasuvar, Zagatala, Ismailly, Yardimli, Saatly, Shamakhy, Shamkir regions and Baku City. As a result, the quality of veterinary services has been improved and animal mortality (among livestock owned by farmers and local population) has considerably decreased.

■ *Increasing farmers' managerial and technical skills*

120000 copies of 6 information leaflets on agro-marketing, 15000 copies of 3 posters and 120000 booklets on 3 topics have been published and distributed among landowners. 541 people participated in the seminars and 6 radio and 6 TV programs on agro-marketing have been produced. 20000 copies of the "Agro-marketing management" booklet have been prepared within the framework of "Agriculture Development and Credit". The booklet was distributed among farmers and entrepreneurs in 29 regions.

Training courses on land registration and land market; introduction of pesticides and ecological balance; legal and economic basics of water use and its management; agricultural crediting; preventive measures against helminth in ruminant animals and public health were arranged within the framework of "Agriculture Development and Credit" project. A number of booklets, leaflets, articles and other materials were published and distributed among landowners and farmers.

■ *Improving irrigation*

Water Users Associations are involved in the management of water supply to 46% or 628000 ha of overall irrigated lands. 585 Water Users Associations have been established over the last period, which cover 622000 ha of the irrigated plots of land and provide services to 380000 legal entities and individuals. However, they experience difficulties in fee collection, which prevent them from realizing their full capacity. Since 2004 the project "Irrigation-distribution system and improvement of its management" was launched through the WB loan. This project came into force on December 19, 2003. The project aims at improving the water supply and ameliorative status of Bahramtapa hydrosystem on the Araz river, inter-farm irrigation units and 55000 ha of irrigated lands in 11 regions of the Republic. Re-establishment of the Water Users Associations will start following the Presidential Decree on the introduction of amendments and changes to the Law "On Melioration and Irrigation".

Reconstruction of inter-farm canals has been launched and construction of 180 hydraulic units has been completed within the framework of rehabilitation of Samur main headwork through the WB credits.

■ *Flood mitigation*

A Memorandum of Understanding on financing the construction of protection dams for flood prevention through an ADB soft loan was signed in December, 2003. A Loan Agreement equivalent to USD 22.1¹⁰² mln. between the Government of Azerbaijan and ADB was signed on July 22, 2004. The Loan Agreement envisages allocation of soft loan for the implementation of the "Flood Mitigation" project. The project aims at preventing floods in vulnerable areas in Aghsu, Astara, Balakan, Gabala, Gakh, Goychay, Ismailly, Oghuz, Shaki, Zagatala, Gusar regions and Sharur region of Nakhchivan AR, ensuring the safety of residents, reducing the economic and ecological impact caused by flooding and protecting the environment. Implementation of the measures envisaged in the project will enable flood mitigation in 5 cities and 43 villages with 76.8 thsd. ha of area and about 215.3 thsd. population in 12 regions. It also envisages construction of 27.3 km length of reinforced concrete dams in 23 rivers, 30000 length-running meters of soil dams and laying stones in 10 km area. It is planned to build 1177 m length of concrete protection dams in Shaki, Gabala and Gakh regions, 770 m length of dams in Ismailly, Aghdash and Goychay regions, including 1600 m length of stone dam in Sharur region. All these measures will be implemented through the EC funds.

■ *Encouraging private sector development in the provision of equipment and chemical services*

In accordance with the Resolution of the CM dated May 31, 2004, it is envisaged to purchase equipment to cover the needs of private sector in agricultural machinery. This will be done using the funds accumulated in a Partnership Fund. A total of 62 grain harvesters from the Russian "Rostselmash" factory, 64 tractors from Byelorussia and more than 100 agricultural machinery were purchased from Turkish "Onallar" company. 91

¹⁰² Total cost of the project is USD 29.5 mln. including the share of Azerbaijan – USD 7.4 mln.

agricultural machinery of 75 types brought from the Turkish companies were demonstrated at a fair-exhibition held in Ujar region in May 2004.

“Agroleasing” Joint-Stock Company was established in line with the Presidential Order “On additional measures to expand leasing in agrarian sector” dated October 23, 2004. It is envisaged to allocate¹⁰³ 250 bln. AZM from the state budget in 2005-2006 for the purchase of machinery through the JSC. In addition, customs duties on the goods imported through the leasing transactions were exempted.

Environmental safety

■ *Background*

Environmental safety of the country directly depends on its economic and social conditions. The following objectives have been identified to solve the environmental problems within the framework of the Programme:

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

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

■ *Environmental protection*

Within the Ministry of Ecology and Natural Resources (MENR) a National Monitoring Department has started operating to create a system of monitoring air pollutants from transport and other sources. An Agency for Management of Toxic Wastes has also been established for effective waste management. Regular monitoring of air pollutants is done in the big cities of the Republic.

■ *Reconstruction of water treatment plants and sewerage system*

Preparation of relevant project papers (feasibility study) on reconstruction and expansion of water treatment plants in Baku and Sumgait, including, the sewerage system in Sumgait, was completed in 2002. Water treatment plants of the Baku city were included in the assets of “Azersu”. Furthermore, a Memorandum was signed with the French government on the allocation of 35 mln. Euro for the reconstruction of Hovsan aeration station.

Construction of a 25 km-length fence to protect the Jeyranbatan reservoir has been completed; a new forest area planted in 70 ha of area and currently, improvements and maintenance work is being carried out in 1275 ha of forest area in that territory. Measures for the protection of Jeyranbatan reservoir were completed in the first quarter of 2004.

■ *Environmental protection of the Caspian Sea*

¹⁰³ A total of 100 bln. AZM were allocated from the state budget in 2005.

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

To prevent the wasteful use of natural resources of the Caspian Sea and adjacent littoral territories, the Small Grants project for "Sustainable development of the Caspian communities" (2004-2006) was launched at the beginning of 2004. An EU-funded project (total cost is 1.2 mln. Euro) will cover the 4 Caspian littoral countries¹⁰⁴. The project aims to provide employment to the local population in Ali-Bairamly, Astara, Davachi, Lankaran, Masally, Neftchala, Sabirabad, Salyan, Siyazan and Khachmaz regions through income generation opportunities and to purify the polluted areas. The project also envisages the implementation of pilot projects to restore environmental protection in the territory and the management of natural resources. Funds amounting to 300000 Euro will be spent for Azerbaijan under the project.

■ *Re-cultivation of lands*

A project on oil sludge clean-up component of the EUIP funded by the WB soft loan has been implemented at a Polygon near the Buzovna-Mashtaga settlement. This project studied the options for re-cultivation of 1 ha of area of oil-polluted land in the territory of Absheron district. Approximately 30 ha of area have been selected for treatment of pollution in the territory of Oil and Gas Extraction Department in the Binagadi district. The tender procedures for treating the area have been held. Treatment work in the selected area is currently underway.

A treatment plant and concrete breaker have been installed at the Surface-Active Substances Plant in Sumgait under the EUIP to remove the mercury waste. A polygon for mercury wastes has been constructed in 50 ha of area in the Pirakushkul village (Absheron district); the road leading to the polygon has been covered with asphalt; the bridge in the part of the road crossing over Samur-Absheron channel has been reconstructed. A total of 40000 m³ of toxic wastes have been buried in the polygon. A State Acceptance Commission was established based on the Order of the CM (August 2, 2004). A Certificate of Acceptance issued by the Commission to put the facility into operation was approved by the Order of the CM in October 15, 2004.

A "Hazardous Wastes" Ltd. has been established within the MENR for managing the polygon under the agreement with the WB and, and it has been registered by the Ministry of Justice. Furthermore, a "Guide on listing hazardous wastes", "Guide to registering hazardous waste producers", "Guide to certifying hazardous wastes" and "Guide for the transportation of hazardous wastes" have been prepared. "Rules of certifying hazardous wastes" was approved by the Order of the CM in March 31, 2003. The relevant certificate of registration was provided to the "Guide to list and classify wastes in the production process and service sectors" by the Ministry of Justice on June 14, 2003. A "State Strategy for handling hazardous waste in Azerbaijan" was approved by the Resolution of the CM dated August 21, 2004.

■ *Biodiversity*

Preparatory work enabling the protection of traditional sturgeon hatchery areas in the Kur and Araz rivers is being implemented. These areas will have the status of officially protected areas within the framework of the EUIP. Initial negotiations have been conducted with the international financial institutions for treating the delta and riverbed of the Kur river and rehabilitating hatchery areas.

Khyly sturgeon hatchery with breeding capacity of 15 mln. sturgeons in a year was established in line with international standards and put into operation in 2003. First sturgeon fries in the hatchery were produced in June 2004. About 100 people have been employed since the start of operations in the hatchery. A Public Fund for Sturgeons has been established by three ministries of the Republic of Azerbaijan (Ministry of Ecology and Natural Resources, MoED and Ministry of Culture) and registered by the Ministry of Justice to manage the sturgeon hatchery. 5.8 mln. sturgeon fries were produced in the hatchery and released into the Kur river in 2004. In addition, 113 sire sturgeons were produced. The hatchery envisages producing 15 mln. sturgeons in a year.

¹⁰⁴ Azerbaijan, Kazakhstan, Turkmenistan, Russia.

For the purpose of protecting biodiversity and ensuring ecological balance, 4 Regional Enterprises for Forest Nursery (Tugay, Kur, Guba and Absheron REFN) were established in 2003. Sowing in 25 ha of area in 2003 and in 35.5 ha of area in 2004 was undertaken at these enterprises. Perennial plants were planted in 2319 ha of area in 2003 and in 741 ha of area in the spring of 2004 by the Enterprises for Protection and Rehabilitation of Forests. Forests were planted in 587 ha of area in 2003 and 158 ha of area during the spring of 2004 on the banks of the Kur and Araz rivers. Closely spaced forests were planted in 795 ha of area in 2003 and 575 ha of area over the spring of 2004.

It is envisaged to establish Shahdag National Park within the framework of the Rural Environmental Protection project, which is currently being prepared by local and international consultants. The project will serve to develop ecotourism, improve the social welfare of the population living in that territory and strengthen environmental management. It is expected to launch the project in 2005. In addition, the project papers on establishing Samur-Yalama National Park were prepared in 2004 within the framework of a "Caucasian initiative" Program supported by the German Government.

Ordubad National Park, Shirvan National Park, Agh-gol National Park and Shahbuz State Nature Reserve were established in 2003 in line with the Order of the President of AR. In addition, the Gakh State Protected Area was established by a Resolution of the CM. At the same time, the area covered by Garayazi, Ismailly, Ilisu, Pirgulu, Turyanchay State Reserves were expanded. The relevant measures are being implemented to create the infrastructure for ecotourism in Shirvan National Park. A Regulation for Hirkan National Park covering the territories of Lankaran and Astara regions have been approved; the documents on land allocation and the State Act on the use of land have been prepared. Regulations for Ordubad National Park named after academician H. Aliyev, Shirvan and Agh-gol National Parks were approved by the Decree of the President of AR dated August 3, 2004. Altiaghaj Reserve was granted the status of National Park by the Presidential Order dated August 31, 2004 and the Regulation for the Park was approved on November 23, 2004. In order to expand the network of specially protected areas in the Republic of Azerbaijan, Eldar Shamy State Nature Reserve with 1686 ha of area was established by the relevant Order of President dated December 16, 2004.

Preparation of documents for expanding the areas of Goy-Gol and Absheron State Nature Reserves and establishing Gashgachay and Korchay State Nature Reserves continued in 2004.

Information on approval of the State Program on expanding the use of alternative energy sources by the President of AR is provided in the energy policy section of this report. Pilot projects to explore the opportunities of using alternative energy sources are being implemented in Nakhchivan, Ismailly, Guba and Lerik regions. Thus, biogas devices are functioning in these regions using solar energy.

■ *Radioactive pollution*

With a view to improving the ecological status of Absheron region, especially, Baku City, the first stage of repairing and expanding the Isotope Center for storing and treating radioactive wastes has been completed with financial support from the EC. Thus, construction and rehabilitation work, including supply of technological equipment, platform-laboratory and standard equipment was completed. The relevant agreement on the construction work at the second stage was signed with the contractor in September 2004. Provision of non-standard equipment, hand tools and accessories to the Center is going on.

Reconstruction work at the polygon for radioactive wastes has been completed. Funds are required for radioactive decontamination of Ramana and Yeni-Surakhany plants, which are under the management of Azerkimya.

■ *Institutional development*

New laboratories have been established in the Gazakh and Fizuli regions. This has been done with the aim of establishing regional laboratories and strengthening their physical infrastructure. These measures are being continued in other regions as well.

Electronic versions of geological, land, forest cover maps, including the maps of ecological land assessment of the Republic of Azerbaijan have been designed. Work on electronic maps of the forest structure is underway.

A Public Center for Environmental Information – “Orhus”, functioning under the MENR, carried out an ecological awareness campaign in 2004 with support from the OSCE Baku office.

Tourism

■ *Background*

The geographical location of Azerbaijan provides good prospects for development of tourism. Development of this sector will give an impetus to the development of the regions and the opportunities for employment in the regions will increase. The following objectives have been identified for the development of tourism within the framework of the Programme:

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

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

■ *Creating an enabling investment environment for development of tourism business*

The licensing period for companies engaged in tourist activities has been prolonged from 2 to 5 years and the license fee reduced from 8 mln. AZM to 2.75 mln. AZM. The cost of a single entry visa for tourists was reduced from USD 40 to USD 20. These initiatives are aimed at reducing poverty and speeding up new job creation and development of tourism in the region. As a result, the number of companies engaged in tourism reached 100 at the beginning of 2004 and the tourist flow increased. According to the latest statistics, the number of tourists visiting the country increased 82% in 2003 in comparison with 2000. Thus, the number of tourists who visited the country was 1066000 in 2003. During 2004, this figure reached 1300000, which is 25% more than the previous year.

A national seminar “Expanding the role of tourism in social and economic development and poverty reduction” was held in Baku on November 30 - December 2, 2004. The seminar was organized by the Ministry for Youth, Sports and Tourism, the UN Economic and Social Commission for Asia and Pacific region and UNDP country office in Azerbaijan with support from the Japanese Government. The seminar was attended by Japanese, Turkish and Thailand experts, representatives of tourist companies, state structures and higher schools specialized in training tourism specialists. The main goal of the seminar was to identify ways of developing domestic tourism and support poverty reduction activities. The issue of cooperation between the private and state sectors to promote tourism development and provide the tourism sector with highly qualified personnel was discussed at the seminar.

■ *Improving advertising and publicity in the tourism sector*

It is envisaged to establish tourism information centers for publicity and coordination in Baku, Shaki, Ganja, Lankaran, Shamakhy, Nakhchivan, Guba and Khachmaz under the project "Institutional support to the Ministry for Youth, Sports and Tourism" (2004-2005) supported by the UNDP. Local and foreign experts participated in discussion of the project. In addition, a comprehensive action plan for each section of the project and proposals for its implementation have been prepared.

An agreement on establishing Tourism Information Centers was signed between the Ministry for Youth, Sports and Tourism and the Ministry of Communication and Information Technologies in 2004. Locations for the Tourism Information Centers were allocated in Baku and the relevant regions.

Funds have been allocated to establish Tourism Information Centers in Shaki and Lahij within the framework of the WB Trans-Caucasus Tourism Initiative¹⁰⁵ and it is envisaged to put them into operation in 2005. At the same time, relevant training courses were continued during the reported period.

A seminar on the "Practice and prospects of developing regional ecotourism and transborder cooperation in the protected areas of the Southern Caucasus" was arranged by the German re-qualification and development organization "Invent" at Baku Business Center on November 2004. The seminar was attended by representatives from the Ministries for youth, sports and tourism, ecology and natural resources, as well as representatives from tourist companies, national parks, NGOs. The aim of the seminar was to improve coordination between eco-tourism agencies, and to share the experience of the tour-operators in the protected areas. The participants discussed the opportunities for developing rural tourism and establishing tourist routes in the national parks of Azerbaijan, and they emphasized the importance of raising environmental awareness.

■ *Training specialists in tourism and upgrading their skills*

The following specializations have been set up to prepare tourism specialists and improve capacity: "Sport tourism" at the Azerbaijan State Academy on Physical Training and Sport; "Hotel management", "Tourism management" at Baku Physical Training and Tourism College. It is envisaged that training sessions on tourism development to be held in the regions in 2005 within the framework of "Institutional support to the MYST" will provide information for the local people.

■ *Developing regional tourism*

A Project and business plan have been drawn up to develop eco-tourism and rural tourism in the regions (Gusar, Guba, Shamakhy, Ismailly, Lankaran, Ganja, Khyzy, Lerik, Masally, Zagatala, Khachmaz, Gazakh, Gabala, Oghuz and Nakhchivan) and submitted to interested foreign investors.

The "PIP of the Republic of Azerbaijan for 2004-2008" stipulates Infrastructure projects to promote the development of tourism as well. The projects will be financed through public investments and funds provided by international financial institutions.

¹⁰⁵ Through the grant allocated by Swiss government.

Chapter 6. Institutional Reforms and Capacity Building

Reforms in Public Administration

Improvement of the public administration system is an integral part of institutional reforms. Research has shown that the transition from an administrative-authoritative regime to a market economy has been easier in those former Soviet countries with strong institutional and public administration systems. An improved public administration system is of great importance to support economic development and promote its sustainability. Taking into account all the above-mentioned, public administration reforms have been identified as one of the key points in the SPPRED.

Against the background of the main goals and objectives of the SPPRED, the following were identified as the main goals of public administration reforms:

- Improve governance, increase financial discipline and transparency;
- Improve the allocation and use of funds;
- Increase the efficiency of programs and services.

Significant measures have been undertaken in the Republic of Azerbaijan since late 1998 and early 1999 and public administration reforms have launched. The President signed a Decree “On establishment of the State Commission on Public Administration Reforms¹⁰⁶ in the Republic of Azerbaijan”, on December 29, 1998. The Decree, in fact, provided the basis for the reforms focused on formation and improvement of the public administration system.

One of the progressive steps taken towards public administration reforms was the Decree of the President “On the measures to accelerate the social and economic development in the Republic of Azerbaijan” dated November 24, 2003. The Decree instructed the CM to prepare and submit proposals to the President on completion of the reforms in economic administration, restructuring of the CM, and to distinguish better the powers of several executive bodies. According to the Decree, the CM was also charged with preparation of proposals on the necessary measures to ensure targeted and transparent use of resources allocated from the SOFAR to the State Budget, to strengthen financial discipline in state structures, and increase the revenues and efficient use of expenditures. Development of proposals to improve the structure of budget expenditures was also envisaged in the Decree.

Considerable progress was achieved in public administration reforms during the reported period. The structure of a number of public institutions and ministries was improved, public institutions with similar functions were either merged or eliminated. Several institutions, which had lost their functional importance due to the transition to market economy were abolished. Significant measures were carried out to separate regulatory and entrepreneurial functions of state agencies and ensure the withdrawal of the state from entrepreneurial activity.

To improve the legislative basis of the public administration system, changes and amendments were made to the Law “On Civil Service” (adopted in year 2001) during the reported period. The Presidential Decree “On measures to accelerate the social and economic development in the Republic of Azerbaijan” emphasizes the necessity of proceeding with public administration reforms.

At the same time, active institutional development and restructuring were continued at the CM, the Ministries of Economic Development, Taxes, Industry and Energy, Communication and Information Technologies, Youth, Sport and Tourism, Labor and Social Protection of Population, Transport and the Ministry of Agriculture.

¹⁰⁶ 4 Working groups: on restructuring public expenditures management system, audit reforms, public administration reforms and legal and judicial reforms, established under the State Commission.

The Ministry of Communication was liquidated in 2004 and the Ministry of Communication and Information Technologies was established. This will strengthen the link between communication and information technologies and contribute to the Government's efforts to speed up reforms in the IT sector. This reform will lead to improved "E-governance" and increased role of information technologies in the governance process.

A number of ministries carried out critical assessments of their structures and made adjustments in their staffing level. As a result of structural changes, the Ministry of Taxes made a 40% redundancy in staff numbers. The Ministry of Labor and Social Protection has transferred its functions related to pension allocation to the SSPF. As a result, 1500 employees of the Ministry moved to the authority of the Fund and 150 employees of the Ministry (employment sector staff) were made redundant. Such reforms are very crucial for determining the optimal number of the employees and future increase in wages for civil service.

According to the Presidential Order "On improvement of agrarian sector management" dated October 23, 2004, restructuring of the Ministry of Agriculture has begun. The Order envisages establishing a State Melioration and Water Economy Agency (on the basis of the previous State Melioration and Water Economy Committee), State Veterinary Services, State Phytosanitary Control Services and the State Agency for Agricultural Credit as new structures of the Ministry. Moreover, the President signed the Order "On additional measures to expand leasing in agrarian sector" in October 23, 2004 to improve provision of agricultural producers with necessary equipment. In accordance with the Order, the MoED and the Ministry of Agriculture started the process of establishing a state agro-leasing company.

According to the Presidential Decree of December 6, 2004, the MFE was liquidated and the Ministry of Industry and Energy was established. Functions of the MoED regarding industrial policy have been transferred to the newly established ministry.

Successful implementation of measures to ensure withdrawal of the state from entrepreneurial activity and encourage entrepreneurial activity in the private sector was continued. Power distribution systems of the country have been transferred for long-term management to "Bayva" and "Barmek" private companies during the reported period. Work is continuing towards handing over the management of the gas supply system to private companies. Measures are being implemented to ensure the complete withdrawal of the Ministry of Communication and Information Technologies from entrepreneurial activity. The share of the state in Bakcell Company has already been privatized. Privatization of the state's share in Azercell Company is expected in 2005. A large-scale privatization program has been implemented as part of the process of withdrawal of the state from entrepreneurial activities. So far, more than 30000 SMEs have been privatized and over 1500 joint stock companies established so far.

The institutional framework was improved to ensure efficient collaboration between public and private sectors. A Council of Entrepreneurs, the Investment Promotion and Advisory Fund were established and a special web-site was developed at the MoED for complaints and proposals of entrepreneurs. Regular meetings are arranged between the President, ministers, other state officials and entrepreneurs.

Technical assistance projects were implemented by donors during the reported period to support the Government with public administration reforms:

Restructuring and Reforms in the CM Apparatus: The aim of the Project funded by EU TACIS was to assist in restructuring, improving the CM apparatus and to provide capacity building for its staff. The project was launched in August 2002 and ended in October 2004. Performance Assessment of the CM Apparatus was conducted in 2003 within the framework of the project. A three-stage strategy for the new administration of the CM was developed and submitted for consideration.

The project was helpful in preparing a draft work plan and a new charter for the CM apparatus. Training sessions on computer basics were arranged for 124 employees of the CM. In addition, seminars for the personnel of CM apparatus on managerial skills, public administration and structures of CMs in EU countries, including study tours to Germany, France, Estonia and Latvia, were organized.

A tender was conducted for the establishment of Government Information System (GIS) and necessary equipment was installed. A draft website of the CM was prepared.

Support to Civil Service Reforms: A EU TACIS-funded project was launched in November 2002 and ended in December 2004. The Project aimed at supporting the development of an enforcement strategy for the Law “On Civil Service”, establishing detailed guidelines for recruitment, probation and promotion; supporting the activity of Civil Service Management Council; creating a centralized database on civil servants; preparing training materials and a strategy for public administration reforms.

An enforcement strategy for the above-mentioned Law was developed under the project. Changes and amendments to the Law were made in November 2004. General guidelines on recruitment, staff assessment, interviewing were prepared and included in the two books on HR management published as part of project. A strategy paper on the functions of the Central Agency for HR Management was also prepared.

Cooperation was established with the Ministry of Foreign Affairs in 2004 to test a new approach for the civil servant recruitment process.

Although there are challenges in determining the coverage of the information catalogue on civil servants, the pilot version of a centralized database (including Ministry of Labor and Social Protection, the Ministry of Transport, the MYST) on civil servants’ management was prepared. The database includes detailed information about civil servants and is permanently updated.

Taking into consideration the lack of speciality and strategy for HR management, a draft concept and action plan was worked out in 2004. An Association for HR Management System Employees and Teachers was established at the Project initiative in November 2004.

Study tours (to Poland, Kazakhstan and Slovakia) and seminars were organized, and a library was established within the framework of the project. In addition, a comparative paper on civil service legislation of the countries in transition was prepared.

Capacity Building of the MoED: The goal of the project funded by EU TACIS is to assist in: developing a pilot action plan for HR management and training at the MoED; improving the information exchange system, coordination and consultation mechanisms between the MoED and other ministries and agencies; identifying the role of regional and local departments and supporting the policymaking process at the MoED.

The work within the framework of this project started with drafting a job description of the pilot department (Economic Policy and Forecast) of the Ministry.

At present, the project team is dealing with the planning of future measures in accordance with the State Programme on Social and Economic Development of the Regions. The work is still continuing to adjust the regional departments to a new and more important role.

Short-term seminars and English language training have been arranged for the young specialists of the MoED. The project was launched in November 2003 and will be ended in December 2005.

Apart from the above-mentioned projects, a number of other projects are being implemented jointly with donors, with the aim of improving institutional structure in Azerbaijan. These are: IBTA-II (WB), Poverty Reduction Support Program (WB), Good Governance (BP), Poverty Reduction and Growth Facility (IMF), US Treasury Department’s Support to the Ministry of Finance to improve budgeting process, Modernization of Tax System (EU TACIS), Capacity Building of the Ministry of Foreign Affairs (UNDP), Technical Assistance to the Ministry of Transport, Institutional Capacity Building of Chamber of Accounts (IBTA-II), Capacity Building of the SCC (UNDP), Institutional Capacity Building of the SOFAR (USTDA) etc.

* * *

In conclusion, the public administration reform in the Republic of Azerbaijan aims at increasing the efficiency of public administration; establishing relevant institutions to ensure a balanced regulation of economy; establishing the legislative base and governance system for efficient integration into the global economic system; ensuring audit and transparency in the public administration system; strengthening and improving the legislative framework for the civil service. The SPPRED intends to continue supporting the measures aimed at institutional development in 2005.

Judicial and Legal Reforms

■ *Background*

Judicial and legal reforms are very important for poverty reduction and sustainable economic development. Sound and fair legal institutions and legislative system have to be established and further improved to address the needs of the poor and vulnerable groups of population. As a part of SPPRED, juridical and legal reforms are considered very important for reducing poverty in the country. The following objectives have been set to achieve this goal:

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

The implementation status of the policy measures within the above-mentioned objectives in 2003 and 2004 is as follows:

■ *Increasing the awareness of the poor regarding their civil rights*

Implementation of measures stipulated in the SPPRED regarding the judicial and legal reforms was continued during the last period. To provide legal assistance to the underprivileged, the accused and those arrested for administrative cases, 900 mln. AZM was allocated from the State Budget in 2004.

It is planned to establish Legal Consulting Centers in 5 regions (20 in total) using domestic resources. Preparatory work has started for the selection of personnel with legal background, organization of training courses for consultants, and provision of support services to these Centers. However, discussions with donors on establishing the remaining 15 Consulting Centers have been inconclusive.

Within the framework of "Legal Assistance Service" project implemented with support from OXFAM, 23 information-consulting centers have been established in Barda, Aghdam, Aghjabadi, Tartar, Yevlakh and Goranboy regions, Mingachevir and Ganja cities to inform the poor on their civil rights and provide them with free legal services. In total, 1100-1300 people per month have benefited from legal services within the framework of the project.

A Legal Clinic has started operating in Baku with financial support from the OSCE to improve provision of the poor with legal consulting services. The Clinic provides free legal consulting services mainly to single parent families, pensioners, IDPs and refugees, and the poor and assist in preparing the necessary legal documents. In addition, Legal Clinics for Soldiers were established in Baku and Ganja with support from the OSCE in the first half of 2004. The aim of these Clinics is to inform the citizens doing military service about their rights and responsibilities and provide free legal advice.

As part of the Legal Project implemented by the American Bar Association with support from USAID, awareness of population on their civil rights is being raised through information, discussion sessions and TV advertisements. In 2004, public awareness measures on anti-corruption, family law, property law and civil law were carried out within the framework of the project. These measures are mainly targeted on the underprivileged and vulnerable groups.

Measures were carried out within the “Dissemination of Law into the Mass Media Program” under the project “Support to Judicial and Legal Reforms in Azerbaijan” implemented by GTZ. To this end, a four-stage training-seminar on the “Legal Basis of Journalistic Activity” and specialized training sessions on “Highlighting Civil Procedural Cases” were arranged within the framework of the program. In addition, the competitions on “The Right to Fair Trial” and “The Right of an Individual to Apply to the Constitutional Court of the Republic of Azerbaijan” were organized.

■ *Upgrading and capacity building of the legal profession*

A number of important measures were implemented within the framework of EU TACIS funded project “Improvement and reform of the judicial system in the Republic of Azerbaijan”. The project aims at organizing training sessions for the employees of the judicial system, developing a training program for local trainers of the Training Center of the Ministry of Justice, improving the court administrative system, legal enlightenment of the population and commenting on the laws. Thus, training seminars on Criminal Code and Civil Code have been organized in Baku and the northern regions of the country with participation of judges and public prosecutors. Conferences on “Legal and judicial reforms in Azerbaijan” and “Human rights protection” as well as lectures on Human Rights Convention, independence of the judicial system, public prosecutors in Germany and other relevant subjects have been organized for approximately 150 participants. A three-week study trip to Germany was organized within the framework of the project for a delegation of 12 representatives from the Ministry of Justice, Main Prosecutor’s Office and judges. The aim of the trip was to learn more about the judicial system in Germany.

An assessment of quantitative and qualitative needs of 21 courts was carried out to improve the court administration within the framework of the Project. The courts are being provided with equipment and legal literature, and a training module for the administrative staff is being prepared. In addition, a Public Awareness Strategy was developed within the framework of the project. Articles, newsletters, and press-releases were prepared and published, scenarios were developed for commercials, and assistance was provided for the publication of book “Death penalty and the right to live” within the framework of the Strategy. Seminars were organized on “How the comments should be written?”, concerning the interpretation of laws; a concept paper identifying the rules of writing comments has been prepared; draft comments on Civil Code Commitments, Human Rights, the Criminal Code and Extreme Preventive Punishment was worked out. A study tour to Germany was organized for the authors of the comments. The drafts were reviewed by experts from the EU and discussed with the authors of the comments.

Work on promoting legal security and legal statehood, which are crucial for sustainable economic and social development in the country, has continued within the framework of “Support to Judicial and Legal Reforms in Azerbaijan” started in 1997 with support from GTZ. The scope of activities under the project includes consultations on civil, economic and administrative legislation; re-training seminars on civil law for judges and lawyers; organizing seminars and competitions for journalists on different legal issues aimed at disseminating law into the mass media; organizing conferences, seminars and round-table discussions on various legal issues; publishing a set of judgments of the Supreme Court, including different legal literature; and institutional support to the Constitutional Court. The project closely collaborates with the Presidential Executive Office, Milli Majlis, Constitutional Court, the Ministry of Justice and the Supreme Court.

The project working groups has participated in drafting and providing expertise for a number of new and significant laws (Law “On International Trade Arbitration”; drafts of “Civil Procedural Code” and “Civil Code”; the law “On Lawyers and Advocacy”). Since mid 2004, the project has started supporting reforms in the field of administrative legislation in Azerbaijan based on proposals received from Milli Majlis. In this regard, a working group has been established and drafted the Law of AR “On General Administrative Proceedings”. At the same

time, an International Conference on “Mass Media and Judiciary in the Legal State” was organized by the Council of Europe, OSCE and Azerbaijan Press Council at the end of 2003. In total, 90 people participated in the conference.

A total of 25 three-stage re-training seminars for judges were arranged in Baku, Masally, Ganja, Shaki and Guba. Alongside with foreign experts, Azerbaijani judges participated in the seminars as co-trainers. Seminars will continue to be organized in collaboration with the Ministry of Justice both in Baku and in the regions.

Training on the Human Rights Convention was arranged for more than 50 judges and prosecutors by experts from the Council of Europe. Parallel training sessions were continued at the Legal Training Center under the Ministry of Justice, which was established to develop the professional skills of judicial employees, judges, prosecutors and advocates. 622 mln. AZM was allocated to improve the professional skills of judiciary employees, judges and prosecutors; prepare methodological manuals, and advocacy. To strengthen the physical and technical infrastructure of the Legal Training Center, major repairs were carried out at its building and working rooms. The Center was provided with computers, equipment and access to Internet. Apart from this, necessary legal literature was provided and the electronic catalogue-registration-search system prepared. Training courses on the explanation of legislation, legal awareness and other issues have been arranged by the Center for more than 400 judges, court employees and municipal members with consideration of gender factor.

Within another component of the project implemented by the American Bar Association, training courses for judges and lawyers are being organized and support is being provided to the Economic Court of Appeal.

■ *Improving legal awareness and living conditions of the accused and prisoners and securing their health care rights*

Repair of prisons and improvement of their sanitary-hygienic condition, as well as supply of the penitentiary system with medicines was continued during the reported period. The Health Service Department of the Head Office for the Execution of Court Decisions was moved directly to the jurisdiction of the Ministry of Justice. This will serve to improve the penitentiary services, access of the accused and prisoners to quality health care, ensure independence of health staff. For the first time, the selection of employees has been made through an open competition, as part of efforts to attract highly qualified health specialists to the penitentiary system.

A pilot project “Rights and Freedoms of Prisoners” was launched by the Ombudsman Office, Head Office for the Execution of Court Decisions and local NGO “Umidli Galajak” with financial support from European Council in the first half of 2004. Within the framework of the project, a 4-day training course for juvenile, male and female prisoners aged between 14-40 years in the selected prisons and correction centers was organized by “Umidli Galajak” local NGO jointly with the Ombudsman Office and the Head Office for the Execution of Court Decisions. The following topics were touched upon during the training: the Council of Europe, European Court of Human Rights and the rules of applying to them; EC Conventions on Human Rights and Freedoms; Ombudsman service and application guidelines; human rights, women’s and children’s rights, and judiciary system and application rules. A special book on training topics was prepared and distributed among the participants and relevant institutions.

Joint efforts of the Head Office for the Execution of Court Decisions and International Red Cross Committee to improve the living conditions of the accused and prisoners and to ensure their rights to health was continued in 2004. As part of the cooperation started in 1995, the experts of the Head Office for the Execution of Court Decisions participated in training courses and workshops in foreign countries and the Health Service of the Ministry of Justice has been provided with necessary laboratory equipment and medicines. All temporary isolation wards have been provided with Mass Miniature Radiography to ensure thorough medical examination of prisoners before they enter the penitentiary system. At the same time, Mobile Mass Miniature Radiography has been purchased and provided to the Health Service of the Ministry of Justice.

A Public Council was established by the Head Office for the Execution of Court Decisions and several NGOs dealing with human rights in May 2004. The Council will contribute to the reforms in the penitentiary system and

supervise the fulfillment of country's international commitments. The main goal of the Council is to improve the conditions of the accused and employees of the penitentiary system.

■ *Ensuring equal access to legal institutions*

As is envisaged in the SPPRED, funds have been allocated from the State Budget for the construction of court buildings in Aghsu, Astara and Gobustan regions. An open tender was conducted by the Ministry of Justice for the construction of court buildings in the above-mentioned regions in the first half of 2004. A contractor has been selected and construction work has started. Construction work in the three regions is expected to be completed no later than the first quarter of 2005. Moreover, a two-storey building has been allocated to the judicial institutions at the center of Aghstafa region and major repairs started. The Regional Court, notary's office, civilian registry office and legal consulting office are located at the building. Major repairs of Ali-Bairamly City court, Samukh, Shusha and Khojali regional courts, Ganja Economic and Military Courts and judicial institutions were carried out at the end of 2004.

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Legal and judicial reforms will continue in the country in 2005. Future reforms will focus on promoting the independence and efficiency of the court system; improving selection of judges; restructuring the Judicial Council and ensuring its role in the selection of judges. The reforms also envisage adjusting regulatory acts, which permit disciplinary actions against judges and do not respect the inviolability of judges, in accordance with international standards and experience. The Laws "On Changes and Amendments to the Law on Courts and Judges" and "On Judicial Council" were approved by the President in December 28, 2004 and will come into force from January 1, 2005.

Combating Corruption

■ *Corruption as a precondition for, and the main obstacle in, fighting poverty*

Corruption is the one of the greatest impediments to the economic and social development. It undermines overall development and thus, economic growth by weakening the rule of law and institutional basis of the state. A recent study by the World Bank Institute¹⁰⁷ in 175 countries defines corruption as a great obstacle to reduce poverty, inequality and child mortality. The research shows that countries which have progressed in achieving the rule of law and a significant reduction of corruption are more likely to increase in GDP 4 times and reduce child mortality 75% in the long-term perspective. The WB estimates show that corruption costs the world more than USD 1 trln. each year. This amount could improve the living conditions of 2.8 bln. of poor living on less than USD 2 income per day.

Corruption has a direct impact on poverty. Thus, corruption increases the prices for the state services and decreases the quality of the services. In many cases, it limits access of the poor to education, basic health care services etc. Corruption undermines the confidence of the poor in public administration, the police and civil servants and in this way, weakens the relationship between the state and citizens. At the same time, it has an indirect impact on poverty by weakening economic growth, increasing inequality and creating an environment, which encourages irrational spending of state resources. Since corruption can have a negative influence on the successful implementation of poverty reduction and economic development strategies and programs, SPPRED attaches great importance to combating corruption at all levels and defines it as one of the main strategic goals of institutional reforms. In this regard, the following measures were implemented during the reported period:

■ *Improving the legislative framework and the State Anti-Corruption Program*

The Republic of Azerbaijan has signed and ratified several conventions of the European Council on combating corruption. These are the Convention on Criminal Liability for Corruption, Convention on Civil and Legal

¹⁰⁷ D. Kaufmann and A. Kraay Growth Without Governance (Economía, Volume 3, Number 1), WBI, Fall 2002.

Liability for Corruption, Convention on Extradition and Convention on Laundering. In 2004, Azerbaijan joined the European Council's Group of States against Corruption (GRECO), Istanbul Anti-Corruption Action Plan under the OECD and Extractive Industries Transparency Initiative and signed the United Nations Convention against Corruption.

Considerable progress was achieved in identifying and strengthening the legislative framework and scope of anti-corruption activities. To strengthen anti-corruption activities in the Republic of Azerbaijan, the Law "On Combating Corruption" was adopted and approved by the relevant Presidential Decree in March 3, 2004. The Law was designed to reveal and prevent corruption-related violations and eliminate their negative outcomes; protect social justice, human rights and freedoms; create an enabling environment for economic development; ensure lawfulness, transparency and effectiveness of activities of state authorities or local self-governments and officials. It also aims to strengthen state-citizen relationship, encourage professionalism in the civil service and create an environment, which discourages any corruption-related violations by civil servants.

The State Anti-Corruption Program for 2004-2006 has been developed by the CM jointly with the state authorities. The Program is based on the requirements of the Law "On Combating Corruption" and the international Convention on Criminal Liability for Corruption, Convention on Civil and Legal Liability for Corruption; the UN Convention against Corruption; international agreements signed by the Republic of Azerbaijan; as well as the experience of European and CIS countries and the WB comments. The State Program was approved by the Presidential Decree dated September 3, 2004. It envisages the following: anti-corruption measures; improving legislative framework; measures related to the activities of anti-corruption, public, and law enforcement institutions and courts; as well as awareness raising and international cooperation. The Order of the President dated September 3, 2004 instructed the central and local executive authorities to report to the CM and Anti-Corruption Commission under the State Council for Civil Service Management every 6 months about the implementation status of measures stipulated in the State Program.

■ *Establishment of the relevant anti-corruption institutions*

The Anti-Corruption Commission under the State Council for Civil Service Management has been established to ensure the enforcement of the Anti-Corruption Law, which comes into force from January 1, 2005. The Commission consists of 11 members, 4 out of which are appointed by the President, 4 by the Milli Majlis and 3 by the Constitutional Court. At the same time, an Anti-Corruption Department has been set up under the Prosecutor General to ensure full enforcement of the Law. The Department is specialized in preliminary investigation of corruption cases. Regulation of the Department was approved by the Presidential Decree in October 28, 2004. Thus, the necessary legal and regulatory framework was established for the Department to start work. At present, the CM works on a draft legislative act to identify the types of liability for the breach of Law "On Fight against Corruption".

■ *Public awareness campaigns against corruption*

Necessary measures, as well as anti-corruption campaigns have been undertaken by the relevant state structures, donors and NGOs to achieve the objectives set out in the State Anti-Corruption Program. A Round Table on the "Prospects of Applying the Conventions on Civil Liability and Criminal Liability in Azerbaijan" was organized by the Azerbaijan Young Lawyers Association and OSCE Baku Office in November of 2004. Government representatives, NGOs, members of parliament, businessmen and journalists participated in the Round Table and led the discussions on "Corruption and Human Rights", "Application of International Conventions on Corruption in Azerbaijan".

Moreover, translation of foreign literature on corruption has started. Thus, S. Rose. Ackerman's "Corruption and Government: causes, consequences and reforms" was translated within the framework of the "Next page" project with support from the Soros Foundation and presented to a wide public. In addition, a book "Tools for combating corruption" was published with financial support from the EC and technical assistance from Transparency International.

Decentralization (Municipalities)

■ *Background*

As an important aspect of decentralization and social democratization in Azerbaijan, municipalities play a key role in mobilizing citizens and integrating efforts for poverty reduction. Decentralization was started through the creation of 2667 municipalities in the country in 1999.

The role of municipalities is crucial for the successful implementation of the SPPRED and sustainable regional development. Municipal capacity needs to be strengthened to enable them to play an effective role in the implementation of the SPPRED and PIP. The following measures were taken within the framework of the SPPRED for capacity building of municipalities and strengthening their role in promoting poverty reduction and economic development:

■ *Subsidies from the State Budget*

Although the State Budget for 2003 envisaged allocating subsidies of 25 bln. AZM to municipalities, they received only 5 bln. AZM of this amount. In 2004, subsidies of 10 bln. AZM were allocated to municipalities and their distribution was completed by the first half of the year. In order to receive subsidies from the State Budget, the Municipalities should provide audit papers of the executed budget, approved budget and budget forecast for the next year to the regional departments of the Ministry of Finance. The 2005 State Budget envisages subsidies of 10 bln. AZM to municipalities.

■ *Strengthening the legislative framework*

The Law "On Approval of the Regulation for Tax Agencies of Municipalities" of AR came into force following the Decree issued by the President in October 23, 2003. Currently tax agencies are being established within municipalities. Proposals were prepared by the MoED to develop an action plan for increasing local budget revenues in order to decrease the dependence of local self-governments on the State Budget.

The changes made to the Law "On administrative supervision of the activities of municipalities" in April 9, 2004 extended the powers and functions of the Centre of Work and Methodological Assistance to Municipalities under the Ministry of Justice and improved administrative supervision. The Center will report on its activities to the Milli Majlis on an annual basis. The changes and amendments to the Law enabled the Center to provide proposals concerning legislation for municipalities. According to the changes to the Law, municipalities will send the copy of any decision made by them to the supervisory body not later than 15 days. Another change to the law has created conditions for more participatory administrative supervision, which enabled the Center to involve relevant municipal commissions and electors in the administrative supervision of municipal activities.

A Model Charter of the Association of Municipalities of the Republic of Azerbaijan has been drafted by the Analytical Information and Research Center and submitted to the Permanent Commission of Milli Majlis for Regional Issues. It has already passed the first reading at the Milli Majlis.

■ *Capacity building of municipalities*

Two separate projects are being implemented by the GTZ in Khyzy-Siyazan-Davachi and Aghstafa-Tovuz-Gadabay-Gazakh regions for capacity building of municipalities and strengthening their role in the solution of local problems, and improving effective use of municipal authorities. Agricultural revolving funds (for wheat and plant seeds) in 40 rural municipalities in Khyzy, Siyazan and Davachi have been created with support from GTZ. Plant and wheat seeds from these funds are annually distributed by municipalities to villagers during the sowing period. Municipalities get seeds back in kind and cash during the harvest time. Thus, long-term support is

provided to the rural population to engage in agricultural activities and the active involvement of municipalities in social and economic development is promoted. In addition, GTZ arranged training for municipal representatives in management, communication, project drafting and management. In total, 320 municipal representatives and employees from 59 municipalities attended these training courses. The project provides financial support to municipalities in order to strengthen their experience in project implementation and facilitates their active involvement in the solution of local socio-economic problems. A total of 63 socio-economic projects in Davachi, 203 in Khyzy and 63 in Siyazan region were implemented over the last period involving municipalities and local communities.

The aim of the project implemented by the GTZ in Aghstafa, Tovuz, Gadabay and Gazakh regions is to strengthen the role of municipalities in local socio-economic development through the creation of Municipal Coordination Councils. Municipal Coordination Councils were established in all the above-mentioned regions. These Councils consist of 64 municipalities in Tovuz, 44 in Gadabay, 23 in Aghstafa and 24 in Gazakh region. 155 representatives of Municipal Coordination Councils attended training courses on management, project drafting and management within the framework of the Project. To date, 12 socio-economic infrastructure projects in Gazakh, 13 in Gadabay, 15 in Tovuz and 14 in Aghstafa region have been developed and implemented by the municipalities within the framework of the project.

The Center Towards Civil Society published a book on “Municipal Finance and Local Budget Process” and distributed it among municipalities with financial support from the Open Society Institute Support Fund in order to improve the financial opportunities of municipalities and train them in preparing local budget. At the same time, Training on Municipal Finance and Local Budget Process has been provided to 16 municipalities in Baku and Absheron.

Work is being implemented to ensure active involvement of municipalities in poverty reduction. Thus, municipalities were involved in the Regional Workshops, held by the SPPRED Secretariat in 6 regions (Guba, Nakhchivan, Shaki, Masally, Shamakhy, and Ganja) and in 10 regions (Ali-Bairamly, Nakhchivan, Mingachevir, Shaki, Lankaran, Ganja, Sumgait, Guba, Shamakhy, Tartar) in 2004 in order to get views from civil society about poverty and its reasons in the country. The above-mentioned Workshops were supported by technical assistance from the United States Agency for International Development, United Nations Development Programme, ADB and the Government of Germany. During the Workshops, municipalities were informed about the contribution they can make to poverty reduction and their problems, views and comments were received.

A two-day workshop was organized for members of municipalities in each of Khyzy, Siyazan and Davachi regions. The workshops, which were supported by Save the Children, were devoted to explaining the “Charter on Self-governance Coordinating Councils in the Republic of Azerbaijan” and the possible advantages that municipalities may derive from this Charter.

IFES carried out active work to turn the municipalities into one of the leading institutions on local development over the reported period. The agency cooperates with 9 selected municipalities in the country, assists them in solving governance problems, and arranges training for municipal representatives and servants. IFES has published guidelines for municipalities, which covers all aspects of local self-governance, and for the first time in the country, created a database of municipalities with Internet connection. Starting from April 2004, IFES together with World Vision arranged training sessions on “District committees of municipalities” in Baku and Sumgait cities with the aim of establishing district committees and recording them in the relevant municipalities. In conclusion, 14 out of 35 trained district committees have been registered in the relevant municipalities.

The Youth Education Center with support from the OXFAM and Dutch International Humanitarian Organization (ICCO) launched the project “Role of self-governance institutions in poverty reduction” in Mingachevir at the end of 2004. The project aims at involving citizens in identification and solution of local problems, as well as, defining future ways in which municipalities can contribute to poverty reduction and specific actions to address problems. A 7-month project envisages the development of an Action Plan for the Mingachevir Municipality for 2005.

In 2003-2004, training sessions were implemented by the Center Towards Civil Society with support from the International Rescue Committee for capacity building of the municipalities and communities in the southern part of the country damaged as a result of the war with Armenia. The training covered 12 communities in Saatly, Sabirabad, Bilasuvar, Fizuli and Beylagan and 33 communities in Agdash, Yevlakh, Hajigabul, Kurdamir and Ujar. In addition, the Center organized round tables on "Expertise of legislation on municipalities and preparation of proposals to improve self-governance system" with support from OSI-SF, the WB and Eurasia Foundation. Expertise of 10 relevant laws was provided. The outcomes were discussed once a month at the round tables. A set of proposals aiming at improving local self-governance system was prepared and submitted to the relevant institutions.

A number of projects to increase the efficiency of municipalities; improve local self-governance system and financial discipline; strengthen the relationship between the municipalities and NGOs; involve young people in the activities of municipalities and active participation in municipal elections, were implemented with support from the Eurasia Foundation. Besides, international experts were invited to explore the problems for the provision of public services in Tovuz, Goychay regions and Mingachevir city as part of a joint initiative by the OSCE, the Eurasia Foundation, IFES and GTZ. Administrative, financial and social aspects of establishing this kind of services were evaluated by the experts. It is planned to develop and implement specific projects in 2005.

■ *Activities of municipalities*

There are 2669 municipalities in the country and the budget expenditure of municipalities for the last year were mainly used to support the following areas: repair of roads within residential areas, repair of schools, health centers, provision of schools with fuel, financial aid to underprivileged families, assistance in maintenance of household and community amenities, environmental protection, supply with electric and heating power, covering of losses in bills for gas, transport, water and sewerage.

The preparatory work for the implementation of Azerbaijan Rural Investment Project has been completed by the Agency for Support to Agricultural Development through credits allocated by the WB. The project aims at reducing poverty and encouraging community development in rural areas. The Project envisages financing about 350-450 projects (each with average amount of USD 27000) in 21 regions in Mughan-Salyan, Shirvan Plain and Nakhchivan regions. Local municipalities will be actively involved in this process. The projects will mainly cover the infrastructure, small storages, marketing and processing, and natural resources management.

■ *Public awareness on the role of municipalities*

Regional workshops with participation of local population, NGOs, executive committees, and representatives of central government to raise awareness of population on the role of municipalities and municipal elections started in 10 regions in 2004 by the American Bar Association. The workshops covered Khachmaz, Guba, Tovuz, Saatly, Jalilabad, Shaki, Goychay, Aghsu, Lankaran regions and Nakhchivan AR. The participants discuss the role of municipalities, priority problems, municipal elections, and the cooperation between executive committees, municipalities and communities.

The NGO "Right of Choice" presented a book "Municipalities" at the end of 2004. The book provides comprehensive information about the experience of municipalities and principles of operation in 13 European countries, aiming at supporting democratic reforms and civil society development in Azerbaijan.

The Analytical Information and Research Center published the second volume of the book "Legal basis of municipalities in the Republic of Azerbaijan" with support of OXFAM within the framework of the project "The role of municipalities in poverty reduction in the Republic of Azerbaijan". In addition, a journal "Municipalities in Azerbaijan" is regularly published and distributed by the Center.

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According to the Law “On mutual cooperation, merging, separation and dissolution of municipalities”, the number of municipalities was increased from 2669 to 2735 by the end of 2004. The second municipal elections were held in December 17, 2004 and members were elected to 2735 municipalities.

With a view to increasing efficiency of activities and capacity building of municipalities, being a new element of institutional development in the country, it is planned to carry out further measures and projects next year in cooperation with donor organizations and within the framework of the SPPRED.

Poverty Monitoring

■ *Background*

For the purpose of evaluating the impact of the poverty reduction measures of the SPPRED, it is planned to carry out poverty monitoring in the country on a regular basis. The following objectives have been set to achieve the goal:

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

The implementation status of the policy measures related to the above-mentioned objectives in 2003-2004 is as follows:

■ *Increasing capacity for monitoring poverty*

PMU was set up under the SPPRED Secretariat (with financial and technical support from the UNDP) in order to improve monitoring of different aspects of living standards in the country. Enhancing capacity in this area is considered vital in order to be able to monitor the future impact of the policy measures being taken under SPPRED. The PMU began its activities in February 2003, and since then has been working closely with the SSC and the Sector Working Groups in order to identify and define the gaps in the country's data collection system, and to make recommendations on how they can be filled in order to improve monitoring of living standards. Implementation of measures continued in 2004.

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

Measures to support capacity building in poverty analysis, data collection and its management have been continued in 2004. Thus, the following training courses have been arranged for the staff of the SPPRED Secretariat, SSC and related agencies: 2-day seminar on "Government and Poverty Reduction", "Tourism Statistics and Accelerated Information Network for Tourism" and "Community Strengthening Network" (supported by the WB); a study trip on "Reforms in Local Self-government System" and training "Management, Project Planning, Report Writing, Monitoring and Evaluation" based on "Train the Trainers" model (supported by the OSCE); including training on "Strengthening the Monitoring of Food Security" (supported by GTZ); "Towards the Millennium Development Goals: poverty reduction, reproductive health and the health policy" (supported by the British Embassy and World Learning); "Good Urban Governance" (supported by the World Learning); "DevInfo" software package (supported by the UNICEF) and training on the "PROST" model for social protection and forecasting the demographic indicators.

■ *Preparing annual database from HBS for use*

The SSC has taken measures to further improve data collection through its HBS. This survey was completely re-designed in 2001, and since then has continued to be improved with technical assistance from the WB and ADB. The SSC published the bulletins with results from the HBS for 2002 in table form and also provided access to the bulletins and distributed them by making available on CD-ROM and placing them on the SSC's website. Implementation of the relevant measures for further improvement of the data collection using HBS was continued by the SSC during 2004. Statistical bulletins with the 2003 HBS results in table form were published and submitted to the related agencies on CD-ROM.

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

The SSC has carried out surveys on vulnerability to food security and evaluating of food security in the country with technical assistance from the EUFSP. The results of this work are published in quarterly bulletins and submitted to the agencies concerned.

■ *Publishing and improving poverty indicators on an annual basis*

Over the last period, the SPPRED Secretariat has mainly worked on creating a data base using those living standard indicators available in the country, and identifying existing gaps. At the same time, poverty indicators for 2003 have been set using SSC's HBS data and theme groups established within the SPPRED Secretariat to identify the country specific MDGs. Discussions have been launched in this regard, and an inception report on the country specific MDGs has been developed and submitted to the UN. In line with agreement with the UN, it is envisaged to complete the work on identifying country specific MDGs in 2005.

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

A national labour force survey was carried out for the first time in 2003 with technical assistance from the International Labour Office (ILO) and UNDP. The SSC prepared relevant bulletins with survey results and distributed them to the interested agencies.

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

A survey was carried out among the refugees and IDPs densely settled in Saatly, Sabirabad, Bilasuvar and Barda regions in September-December 2003 to analyze their current living standards. A final report including proposals and recommendations based on the survey results was published in the first quarter of 2004 and submitted to the relevant bodies.

■ *Developing gender disaggregated statistics and publication of annual bulletin*

The SSC has improved the content and lay-out of its annual bulletin "Women and Men in Azerbaijan". This represents a further improvement in the development of gender-disaggregated statistics, and it is planned to

publish such a bulletin annually. In addition, the State Committee for Women's Issues carried out an annual survey on gender problems.

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

It is recognized that quantitative indicators are not always sufficient to build up a full picture of the extent and causes of poverty, and for this reason a qualitative survey was carried out in the summer of 2003. The survey was conducted under the supervision of the PMU within the SPPRED Secretariat, and with support from the UNDP. Focus group discussions and individual interviews were carried out in 11 regions of Azerbaijan (Sumgait, Guba, Gusar, Shaki, Gabala, Jalilabad, Yardimly, Mingachevir, Barda, Imishli, Aghstafa), and the final report prepared. In addition, a "Qualitative research of poverty in Azerbaijan: school attendance and poverty" was held in 5 regions of the country (Masally, Guba, Beylagan, Goranboy and Baku) in November-December 2004. The final report with research summary has been prepared. The results of the survey are being used by the PMU to supplement the quantitative information available on living standards and to make informed recommendations on how to improve the questionnaires of the HBS.

As part of the participatory approach followed by the SPPRED Secretariat, a series of regional workshops were organized in 6 regions of the country (Guba, Nakhchivan, Shaki, Masally, Ganja and Shamakhy) in 2003. These workshops were organized with technical assistance from the USAID, UNDP, ADB and German Government. The purpose of the workshops is to listen to the views of the local population concerning the reasons of poverty and their proposals for improving local living standards. The workshops also provide a forum for discussing the purpose and effect of the policy measures being introduced under the SPPRED. The report on the workshops has been prepared and distributed among the relevant organizations. In 2004, such workshops were continued in 10 regions (Ali-Bairamly, Nakhchivan, Mingachevir, Guba, Shamakhy, Shaki, Lankaran, Sumgait, Ganja and Tartar) and the relevant report was prepared. A procedure for monitoring the measures implemented under the SPPRED and preparing the population for participatory monitoring has been launched. The aim of this is to identify the progress (qualitative changes) achieved so far and barriers to implementation, through monitoring of implemented and ongoing measures and, prepare recommendations in order to strengthen efforts and increase the role of civil society. An appropriate methodology has been developed and the monitoring in the regions has been launched. Participatory monitoring has already been held in Guba, Shamakhy, Shaki, Lankaran and Ganja regions and the relevant reports have been prepared.

■ *Monitoring and improving the legislative base on minimum living standard*

With regard to monitoring the legislative basis for the minimum subsistence level, the Law of AR on the "Minimum Subsistence Level" was adopted by the Milli Majlis in October 2, 2004 and approved by the relevant Decree of the President of AR dated October 5, 2004. In line with the new Law, the minimum subsistence level is estimated on the basis of the average market prices for food, non-food products and services included in the minimum consumption basket, while compulsory payments are evaluated on the basis of recorded actual expenditures. The minimum subsistence level set in the country provides the basis for identifying the minimum amount of wages and pensions, including benefits, targeted state social assistance and other payments. The minimum subsistence for the main social and demographic groups should be re-calculated once per year and approved together with the state budget. At the same time, the Law envisages a gradual increase in the size of the minimum wages and pension to reach the same level as the minimum subsistence level for the Republic of Azerbaijan. Proposals to make the minimum wage equal to the minimum subsistence level have been prepared and submitted to the CM in 2003.

Chapter 7. Participatory Process (2003-2004)

■ *Background*

Since February 2003, the implementation phase of the SPPRED has been characterized by a participatory approach, as it was in the formulation phase. This approach is aimed at encouraging and facilitating the involvement of government representatives, civil society, and the international donor community in a combined effort to combat poverty.

The main objectives of the participatory process can be summarized as:

- To continue efficient dialogue between civil society and the agencies involved in the SPPRED;
- To inform the population about the measures implemented and to be implemented;
- To strengthen the poverty reduction strategy based on information obtained from civil society;
- To discuss the impact of the measures on improving the living standards of the population;
- To strengthen the joint efforts by representatives of Government, civil society and international donor organizations to combat poverty;
- To establish a social monitoring system through active involvement of the population in the implementation process.

An extensive and comprehensive participatory process continued throughout the SPPRED implementation phase. It has proved to be vital with regard to taking forward the process of consultation with civil society, to understand the actual and potential impact of poverty reduction measures at the local level and to facilitate a dialogue about poverty reduction measures between representatives of Government, donor organizations and civil society. This has led to the development of an effective role for broad sections of the community in the implementation period.

The significance of the participatory process can be summarized as follows:

- To ensure joint efforts of the Government and civil society in combating poverty;
- Direct contact of donor and international organizations with civil society;
- To promote democratic principles;
- Importance of self-affirmation of civil society;
- Combination of the top down and bottom up approach principles;
- To ensure involvement of the most vulnerable groups in the implementation process and consultation with them.

In order to achieve a positive impact and develop an effective participatory process, the activities undertaken with regard to the above-mentioned objectives took various forms.

Firstly, 16 regional workshops (6 in 2003 and 10 in 2004) with participation of various strata of civil society were held in 10 different regions of the Republic.

The second type of activity was to involve civil society in discussions on poverty and ways to combat it, through dissemination of information on the SPPRED implementation process using the media.

Thirdly, a series of activities were undertaken aimed at speeding up the community building process and increasing the potential of local people to play an active part in the poverty reduction measures. These included various training initiatives, conferences, workshops and round table discussions with certain target groups, often in partnership with NGOs and active community members.

Other activities included information about the expansion of SPPRED publicity stands in the regions, increase of information materials on the implementation process of the Programme in the operational stands, and different presentations, competitions, debates etc.

Details on the above-mentioned activities are given in the following sections:

■ *Regional workshops*

From July 2003 onwards the SPPRED Secretariat has held 16 regional workshops in 10 regions—Ali-Bairamly, Nakhchivan, Mingachevir, Guba, Shamakhy, Shaki, Lankaran, Sumgait, Ganja and Tartar. The aim of these workshops was to reveal the potential of local people, to provide information about their own experiences, to get comments from people on positive changes to the policy measures and thus, to strengthen a poverty reduction strategy through improved prioritization. The workshops also contributed to identify ways of tapping into local resources and their potential use in the implementation of future measures.

The goals and objectives of Regional Workshops can be divided into 3 main groups:

- To provide representatives of civil society, local authorities and the private sector with more information on the essence and implementation mechanisms of the SPPRED and the role of the government and donor organizations in the process;
- To provide information on the implementation status of the SPPRED; to arrange an exchange of views about the measures implemented by the Government in different sectors that are covered in the Programme, and to discuss ways of increasing their impact;
- To highlight the roles of representatives of civil society, local government and private sector in the implementation process of the SPPRED and to involve them through closer participation.

Such workshops had been held in 5 regions – Guba, Nakhchivan, Shaki, Masally and Ganja - in the formulation phase in 2002. Given to the positive outcomes gained during the first round of workshops, the coverage was extended to include Shamaky in 2003, and Ali-Bairamly, Mingachevir, Sumgait, Tartar regions in 2004. Another innovative aspect was the active involvement of local NGOs in the organization of the regional workshops in 2003-2004. Whereas the organization of the workshops in 2002 had been largely carried out by international bodies, in 2003, the local NGOs “Umid” and “Simurg” carried out all the preparation work, and worked to ensure the widest possible community representation and active participation at the meetings.

One more positive innovation in 2004 regional workshops was to define qualitative changes and existing problems through monitoring the implemented and ongoing measures within the framework of the SPPRED in the regions. Thus, several activities were undertaken to carry out the social monitoring process focused on increasing the role of the civil society and strengthening their efforts.

The main objective of social monitoring process is as follows:

- Check and evaluate the data received from sector working groups;
- Identify effectiveness of the implemented measures by comparing their intermediate indicators;
- Prepare recommendations to strengthen ongoing and expected measures;
- Analyze the first impact of the SPPRED implementation;
- Strengthen the implementation process and encourage involvement of civil society;
- Identify specific features of poverty in the regions and prioritize the measures to be implemented.

The following methods and tools were used in the monitoring process:

- Monitor ongoing measures in the regions;
- In-depth interviews in the regions to monitor quality and targeting of the implemented policy measures;
- Collect and analyze intermediate indicators for the measures implemented in the regions;

- Group discussions within the framework of regional workshops.

Within the framework of participatory process, the civil society representatives took an active part in the social monitoring process by providing information on the implemented measures and their initial impacts, and constructive proposals for strengthening the implementation process.

Financial support was provided by the USAID for the organization of the workshops, and overall, 140 representatives from the WB, UNDP, UNHCR, UNICEF, UNFPA, ADB and other international and local NGOs participated in the workshops during 2003-2004.

So far a total of 754 representatives (257 people in 2003, 497 people in 2004) from various strata of the civil society, from 49 districts of 10 regions, as well as representatives from national government and heads of 11 Sector Working Groups, have attended discussions during the workshops.

Discussions focused on the implemented, ongoing and future measures within the framework of the SPPRED. Participants put forward a total of 537 proposals (187 in 2003, 350 in 2004) aimed at further strengthening the SPPRED strategy.

The table below provides the schedule, topics and venues of regional workshops held in 2003-2004:

Region	Topics	Date of the training for participants	Workshop date
Guba	Municipality, Economic Development, Health, Ecology & Tourism	July 1, 2003	July 2, 2003
Nakhchivan	Municipality, Agriculture, Energy, Health	July 24, 2003	July 25, 2003
Shaki	Education, Social Protection, Ecology and Tourism, Investment Climate	August 14, 2003	August 15, 2003
Masally	Municipality, Economic Development, Agriculture, Ecology & Tourism	September 4, 2003	September 5, 2003
Shamakhi	Education, Juridical reforms, Ecology & Tourism, Energy	September 18, 2003	September 19, 2003
Ganja	Health, Municipality, Economic Development, Refugees & IDPs	November 13, 2003	November 14, 2003
Ali-Bairamly	Health, Education, Social Protection, Refugees & Dips	March 25, 2004	March 26, 2004
Nakhchivan	Municipality, Economic Development, Energy, Ecology & Tourism	April 15, 2004	April 16, 2004
Mingachevir	Education, Refugees & IDPs, Health, Economic Development	May 6, 2004	May 7, 2004
Guba	Municipality, Education, Economic Development, Ecology & Tourism	June 10, 2004	June 11, 2004
Shamakhy	Education, Social Protection, Ecology & Tourism, Energy	July 1, 2004	July 2, 2004
Shaki	Agriculture, Social Protection, Ecology, Economic Development and Investment Climate	July 29, 2004	July 30, 2004
Lankaran	Municipality, Judicial Reforms, Education, Agriculture	August 19, 2004	August 20, 2004
	Economic Development, Social Protection,	September 16, 2004	September 17, 2004

Sumgait	Health, Municipality		
Ganja	Health, Municipality, Agriculture, Refugees & IDPs	October 14, 2004	October 15, 2004
Tartar	Agriculture, Refugees & IDPs, Energy, Social Protection	November 4, 2004	November 5, 2004

Note: A comprehensive report on Regional Workshops is available from SPPRED Secretariat.

■ *Dissemination of information through the Mass Media*

In an effort to publicize the SPPRED among civil society and promote its closer involvement in the implementation process of the Programme, several measures were jointly implemented with the mass media. They have resulted in a broad coverage of the implementation process in many newspaper articles, television films and reportages, interviews, TV spots, bulletins and press-releases. A brief list is given below:

(I) Newspaper articles, interviews in the press:

- With support from the SPPRED Secretariat, UNDP, OXFAM and International Press Center, a competition for the best article/reportage “MDGs and Poverty Reduction in Azerbaijan” were completed and winners awarded;
- 74 articles were published in various newspapers and journals in the context of “MDG and poverty reduction in Azerbaijan”;
- 67 articles on the implementation process of the SPPRED were published by different journalists in various newspapers, including “Khalg”, “Respublika”, “525-ji gazet”, “Azerbaijan muallimi”, “Palitra”, “Azerbaijanskije Izvestia” and etc.
- 22 press releases on different stages of participatory process were sent to Trend, Turan and AzerTaj agencies.

(II) Radio broadcasts

- Reportages on the regional workshops were broadcasted on Azerbaijan State Radio1 and Araz radio, as well as Radio Liberty;
- 3 reportages were broadcasted on Azerbaijan State Radio1 and Radio Antenne FM within the framework of the media competition “MDGs and Poverty Reduction in Azerbaijan”;
- Interviews with the heads of the Sector Working Groups for Social protection and Tourism on the activities of these sectors within the framework of the SPPRED were broadcasted on Azerbaijan State radio1 and Araz radio.

(III) Television broadcasts and interviews

- A TV-debate in the context of “Poverty in Rural Areas” with participation of the experts of the SPPRED Secretariat was broadcasted on SPACE TV channel;
- 1 TV film on the role of communities in the implementation phase of the SPPRED, 1 TV film on the implementation process of the Programme, as well as 5 TV spots to promote the Programme were broadcasted on AzTV1 channel;
- 3 television films on the implementation process of the Programme in the context of “SPPRED and regional development”, “Role of municipalities in the implementation process of the SPPRED” and “Monitoring in the SPPRED” were produced.
- Programmers on the regional workshops held within the framework of the SPPRED were broadcasted on AzTV1, “Gutb” TV, “Khayal” TV, Sumgait TV, Nakhchivan TV and Mingachevir TV channels;
- In view of donors’ concern with the role of communities in the implementation of the SPPRED, a television film “When the Roads Fall Apart” was produced with captions in English;

- Interviews on the implementation phase of the SPRRED were broadcasted in the news programme in English (Space news) on Space TV channel;
- A programme on the award ceremony of photo competition "Poverty and Future", as well as opening of the exhibition of awarded photos was broadcasted on ATV channel;
- 1 reportage on STV, 2 reportages on Azad Azerbaijan TV, 1 reportage and 1 documentary film were broadcasted on Space TV within the framework of contest "MDGs and Poverty reduction in Azerbaijan";
- Interviews on SPPRED implementation status were given on ANS, STV and Lider TV channels to inform the population;
- Programmes on various measures implemented within the framework of the SPPRED were broadcasted on AzTV, ANS, Lider, ATV, Space, Nakhchivan TV, Sumgait TV, Khayal TV (Guba).

■ *Training in participatory methods*

Raising civil society awareness of the SPPRED is necessary for scaling up community efforts and thus involving them in preparation and implementation of social and economic programmers. It includes three main activities - data collection, data analysis, informing civil society about the outcomes of the implementation phase of the poverty reduction programme. These activities will promote decentralization in decision-making of local communities and self-financing. In this regard, various training sessions were arranged with participation of experts of the SPPRED Secretariat to involve civil society in efficient and active participation.

- A conference "National community leadership", organized in Imishly by the Azerbaijan Community Development Research Training and Resource Center local NGO and supported by the USAID and CHF international organization. More than 150 community heads, municipal and state representatives, representatives of local and international NGOs from 14 regions of the Republic took part in this conference and a presentation "Active participation role of the communities in the SPPRED" was made by the expert of the SPPRED Secretariat.
- A presentation entitled "The SPPRED and Community Development" was provided by the expert of the SPPRED Secretariat at the seminar on Inter-agency Community Development, organized by Mercy Corps, and attended by representatives of 11 local and international NGOs.
- A presentation on "The role of civil society in the SPPRED implementation process" was made at the Community Development conference by the expert of Secretariat. 59 representatives from the communities, municipalities and local NGOs participated in this conference, which was organized by Save the Children within the framework of the "Community Strengthening Network" project, supported by the WB in Nakhchivan, Lankaran, Gabala, Shamkir and Guba regions.
- A presentation on "Community development within the framework of the SPPRED" was made by the expert of Secretariat at the regional seminar "Studying community type development experience" organized by Save the Children with financial support from the WB in Ganja. The seminar was attended by 55 community representatives from 5 regions, 21 representatives from local, international organizations and media representatives.
- With support from Save the Children international organization, regional seminars in the context of "Community-driven development within the framework of the SPPRED" were held by the local NGO "Azerbaijan Community Development Research Training and Resource Center" (ACDRTRC) to improve the cooperation between the community-based organizations and the SPPRED. The seminars were held within the framework of "Community Strengthening Network" project of the WB and covered 23 regions in total: Beylagan (Fizuli, Khojavand), Shamkir (Aghstafa, Gazakh, Ganja, Tovuz, Dashkasan), Gabala (Oghuz, Aghsu, Ismailly, Goychay), Zagatala (Shaki, Gakh, Balakan) and Kurdamir (Ujar, Hajigabul, Yevlakh, Aghdash). A presentation on "The role of communities in the SPPRED implementation phase" was made by an expert of the SPPRED Secretariat.

- With support from ADB, the National NGO Forum held seminars on “Promoting Expanded NGO and Community Participation in the SPPRED” in 17 regions in the north-west, central and western regions of the Republic. Presentations on “Social and economic activities within the framework of the SPPRED” and “Regional efforts within the framework of the SPPRED” were made at the seminars by an expert of the SPPRED Secretariat.
- Save the Children International Organization held a conference “İcmalar Majlisi” in Barda within the framework of “Expanding Integrated Community Development Programme” a project of the World Bank. The conference attended by about 120 representatives from municipalities, community-based organizations, community and mahalla committees from Barda, Tartar, Aghdam and Yevlakh regions. A presentation on “The ways of involving the civil society in the SPPRED implementation process” was made at the conference by an expert of the SPPRED Secretariat.
- International conference on “The role of trade-unions in poverty reduction” was jointly held in Baku by the International Free Trade-Unions Confederation and Confederation of Trade-Unions of Azerbaijan. An expert of the SPPRED Secretariat made a presentation on “The role of trade-unions in the SPPRED implementation process” at the conference and provided participants with informative materials on the implementation phase of the SPPRED.

■ *Work with Target Groups*

The activities carried out under this category took the form of training and awareness campaigns for various groups of civil society. The objective of these activities is to help increase their ability to participate actively and influence the implementation process. They also served to facilitate broader participation in the debate on poverty and its causes. A summary of these activities is given below:

- With support from the UNDP, the local NGO “Ruzgar” together with the SPPRED Secretariat organized discussions on “Poverty and the ways to combat it” at a number of institutions of higher education. The discussions aimed at promoting active involvement of youth in the SPPRED implementation process. Detailed information on the discussions is given below:

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N	Name of educational institution	Date	Lecturers	Subject of lectures
1	Azerbaijan Technical University	25.12.2003	S. Husseinov	Poverty reduction and prospects of sustainable human development
2	Slavonic University	27.12.2003	R. Mirzayeva	Poverty and gender problems
3	Teachers Advanced Training Institute	26.01.2004	A. Karimov	“Poverty and education problems in the SPPRED”
4	Pedagogical University	12.02. 2004	A. Karimov	“Poverty and education problems in the SPPRED”
5	Teachers Advanced Training Institute	24.02.2004	Y. Hasanli	“Poverty reduction and fiscal policy”
6	Baku State University	26.02.2004	Y. Hasanli	“Social protection system and pension reforms in the SPPRED”
7	Azerbaijan University of Languages	27.02.2004	A. Karimov	“Poverty and education problems in the SPPRED”
8	State Academy of Public Administration	03.03.2004	M. Baghirzade	“Labor market and employment in the SPPRED”
9	University of Architecture	03.03.2004	I. Mustafayev	“Poverty and environment”

	and Construction			
10	University of Economics	05.03.2004	Y. Hasanli	"Monetary policy and development of the banking sector"
11	Azerbaijan Technical University	10.03.2004	A. Karimov	"The essence of the SPPRED, and its coverage"
12	Ganja State University	18.03.2004	S. Husseinov	"Solution of refugees and IDPs problems in the SPPRED"
13	Technological University	19.03.2004	A. Karimov	"Education and health problems in the SPPRED"
14	Ganja Scientific Center of the National Academy of Sciences	19.03.2004	A. Karimov	"Main directions of the SPPRED"
15	Sumgait State University	26.03.2004	I. Mustafayev	"Energy policy and environmental safety in the SPPRED"
16	Azerbaijan University	14.04.2004	A. Karimov	"Poverty and education problems in the SPPRED"

- A drawing competition "Poverty and children" held by the local NGO "Potensial" with support from the SPPRED Secretariat and OXFAM among the pupils of the secondary schools of Sumgait, Khyzy, Davachi, Guba and Khachmaz regions was finalized and the winners awarded.
- With support from Save the Children International Organization and SPPRED Municipality Sector Working Group, training-seminars were arranged on "The role of municipalities in the SPPRED". Seminars were organized in Khyzy, Davachi and Siyazan regions. Members of regional municipalities, local NGOs, women's councils, including local community representatives attended the training-seminars.
- With support from the SPPRED Secretariat and the UNDP, a photo competition "Poverty and future" with participation of amateur and professional photographers held by the local NGO "Azerbaijan Community Development Research Training and Resource Center" (ACDRTRC). The jury evaluated about 400 photos submitted to the competition and the winners were awarded.

The photos which were awarded with a prize were displayed at V. Samadova exhibition hall for 3 days.

■ *Other activities*

- In 2003-2004, SPPRED publicity stands were organized at the central libraries of Baku, as well as Barda, Ganja, Nakhchivan, Sumgait, Astara, Shaki, Masally, Guba, Jalilabad, Salyan, Shamakhy, Kurdamir, Gabala, Aghjabadi, Sabirabad regions with a view to providing the population with more detailed information on the SPPRED implementation process and thus encouraging more active participation in the process.
- Books, CDs and audio tapes of the SPPRED, including report of the Regional Workshops held within the framework of the SPPRED, final report of discussions on "Poverty and the ways to combat it" held with the students and teachers of the higher education institutions, annual report on the activities implemented within the framework of the Programme in 2003 and other literature were placed at the stands. In addition, "proposal books" have been placed at the stands in order to find out the proposals of the population concerning the measures implemented and to be implemented under the SPPRED.

- With financial support from OXFAM, the SPPRED Secretariat produced 1000 posters challenging people to combat poverty and disseminated among the relevant organizations.

One of the positive aspects of the participation process in 2004 includes the activities focused on the recommendations identified in the previous years (see: SPPRED Annual Report 2003, pp 87). These activities can be summarized as:

- A number of trainings and seminars were organized by local NGOs in 22 selected regions of the Republic. The objective of these training sessions were to eliminate the gaps impeding active participation of civil society, as well as the civil society organizations in the SPPRED implementation process, and to enhance their knowledge and skills.
- A qualitative survey was implemented to receive from civil society their observations about the impact of the measures carried out within the framework of the SPPRED on living standards of the population. The survey outcomes were summarized with regard to strengthening the strategy of the Programme.
- Women have actively participated in the measures carried out within the framework of the participatory process. Thus, while involvement of women in the process was 23% in 2003, it increased to 29% in 2004.
- The number of host-regions for the workshops was brought to 10 (6 regions in 2003) to facilitate broader participation of civil society in the SPPRED implementation process. Seminars were organized in 17 regions with poor community development within the framework of the project "Promoting Expanded NGO and Community Participation in the SPPRED". The subjects of the seminars were selected by the participants.
- With a view to supporting the decentralization process broad participation of municipalities was ensured throughout the participatory process.
- Regional workshops were held in the regions densely populated by refugees and IDPs (Ali-Bairamly, Tartar, Mingachevir, Sumgait) to ensure their active involvement in the SPPRED implementation process.

■ *Main results*

The activities implemented within the framework of the participatory process had a positive impact on closer and coordinated efforts of the government, donors and civil society concerning the SPPRED's goals. Apart from providing representatives from civil society with more details on the SPPRED, these activities have caused their active involvement in the implementation process, served to highlight their actual potential, as well as identifying ways to use this potential. In its turn, it gave rise to new ideas and proposals on the ongoing and future measures within the framework of the SPPRED.

Despite this, there are certain gaps, which impede active involvement of civil society in the SPPRED implementation process. In this regard, the following recommendations are put forward:

- Continue trainings and seminars for public awareness;
- Ensure regular feedback with civil society to obtain information on the qualitative changes;
- Arrange relevant training in data collection to improve the skills of civil society, as well as civil society organizations;
- Establish a social monitoring system to ensure successful implementation of the measures;
- Promote active participation of the municipalities in the SPPRED implementation process and carry out the relevant measures to develop their skills and knowledge aimed at increasing their role in improving the welfare of population;

- Prepare report on the current status of Community-driven Development (CD) in Azerbaijan providing analysis of needs of the communities involved in this process and the factors impeding its broader implementation;
- There is a need for broad regional studies, improved monitoring indicators and mechanism, preparation of impact and reporting mechanism for the participation process;
- Identify specific measures so that civil society would know its role in this process, what they will be doing and the results of their participation;
- Carry out specific programmes to expand and ensure participation of the civil society representatives;
- Use the role of NGOs and municipalities to ensure the information flow from the regions to the capital as a result of participation process.

Generally, participatory-discussion method is an important factor for implementing efficient monitoring, as well as broadening the social participation process.