

“TOWARDS 2030: SOCIAL AND ECONOMIC INCLUSIVENESS IN AZERBAIJAN” POLICY BRIEF

This policy brief has been produced under the leadership of the National Coordination Council on Sustainable Development of Azerbaijan as part of the “SDG Dialogues” series, as the outcome of the 2nd SDG Dialogue on “Towards 2030: Social and economic inclusiveness in Azerbaijan” held on 14 June 2023.

It provides a succinct summary of the analysis of inclusive growth progress and offers set of policy recommendations on further enhancing social and economic inclusiveness in Azerbaijan.

I. Introduction

The analysis of Azerbaijan’s progress on inclusive growth and social inclusion was conducted in line with the UNCTAD’s Inclusive Growth Index (IGI)[1] summarized in the Table 1 below. The IGI is comprised of four pillars: 1. Economy; 2. Living conditions, 3. Equality and 4. Environment, with selected 27 indicators, aligned with both global and national SDG targets (Annex 1). For the purposes of this analysis, additional indicators on expenditures on health, education, social protection have been added under the third Pillar to capture the financing aspects of these social sectors.

Table 1. Inclusive Growth Index dimensions
(developed by UNCTAD)

Pillar 1. Economy	Pillar 2. Living condition	Pillar 3. Equality	Pillar 4. Environment
GDP	Social and health conditions	Labour participation	Natural capital protection (water, land, gas emissions)
National income	Logistics and finance	Income inequality	Energy intensity
Power consumption		School enrolment	
Employment		Political participation	
Trade		Gender socio-reproduction	

The analysis relied on open-source data both from the national statistics office and international sources, focused on measuring the country’s progress over time. The recommendations section builds upon the findings of the analysis, as well as commitments discussed during the 2nd SDG Dialogue on social and economic inclusiveness in Azerbaijan in Azerbaijan, held on 14 June 2023.

II. Overview of Government policies to enhance social and economic inclusion

“Azerbaijan 2030: National Priorities for Socio-Economic Development”[2] and the “Strategy of Socio-Economic Development in 2022-2026” identified a dynamic, inclusive society based on social justice as one of the five priority directions of the country’s development up to 2030. As highlighted in these national strategies, sustainable and high economic growth must serve the formation of a dynamic and inclusive society, where every citizen would positively benefit. Social and economic inclusiveness is in line with the principle of “leaving no one behind”, which is central to the Agenda 2030 and Sustainable Development Goals (SDGs). Accordingly, SDG targets and indicators on inclusive economic growth and social inclusion (88 targets, and 119 indicators across all 17 SDGs) are prioritized by Azerbaijan.

1. Inclusive Growth Index, UNCTAD
2. Order of the President of the Republic of Azerbaijan on approval of “Azerbaijan 2030: National Priorities for Socio-Economic Development”, February 2021

In the last two decades Azerbaijan has demonstrated strong economic performance with GDP per capita having grown 2.9 times between 2004 and 2022. Over the last 10 years the minimum wage in the country has increased by 3.3 times and amounted to 345 manats, the average monthly salary has grown by 2 times and reached 839.4 manats. The minimum amount of pension payments has reached 280 manats. The criterion of need is 246 manats, and as of the beginning of 2023 the average monthly amount of the state social assistance provided to low-income families was 390.83 manats per family and 88.09 manats per person. The most significant outcome of the efforts carried out is the eradication of extreme poverty, measured by reduction of the national poverty level, which decreased from 49% in 2001 to 4.9% in 2015. Despite rising to 6.2% in 2020 due to the COVID-19 pandemic, this indicator fell to 5.7% in 2022.

III. Status of inclusive growth progress in Azerbaijan and existing challenges

The analysis of Azerbaijan's progress on Over the past period, the Government of Azerbaijan has consistently implemented a number of large-scale state programs aimed at enhancing the wellbeing of the population and their social and economic inclusion, with significant results achieved. However, as the economy expands, economic development needs to be geared towards ensuring equitable distribution of income and improving the socio-economic well-being of low-income citizens and marginalized groups. Rising incomes in the country should create even greater economic opportunities, provide effective and decent employment for all groups of the population, and in particular, improve women's access to economic opportunities. Below section provides a short summary of progress analysis on selected indicators across the four pillars of the Inclusive Growth Index indicators highlighted above.

i) Economy

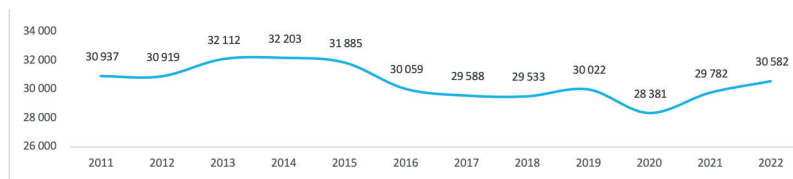
Economic growth and expansion of income generation opportunities play a critical role in enhancing inclusive growth. From an economic perspective, the notion of inclusive growth complements GDP with indicators on employment, labour productivity and trade. Azerbaijan demonstrated strong economic performance with GDP per capita having grown around three times between 2005 and 2021 (Figure 1). This has resulted in the country's progress to an upper middle-income level. However, the pace of GDP and GDP per capita growth have slowed down and been volatile after 2011. While the country has demonstrated strong economic growth so far, it has been uneven across different parts of the country, and addressing regional disparities could boost the sustainability of growth. Exports as a share of GDP, an indicator that helps understand the level of a country's integration in global economy and its competitiveness, had a downward trend since 2008, but started picking up in 2021.

Labor productivity in Azerbaijan, measured as GDP per person employed, dropped between 2015-2020 (Figure 2). Covid-19 pandemic played a key role in the sharp drop in 2020, however, a gradual increase is observed from 2021. While output per worker is comparatively lower than peer countries, i.e. upper-middle income countries in Europe and Central Asia region, its growth rate in recent years has been one of the highest among them.



Source: The State statistical committee of Azerbaijan, the World Bank (World Development Indicators)

Figure 2. Azerbaijan: Output per worker (GDP constant 2017 international \$ at PPP) ILO modelled estimates, Nov. 2022

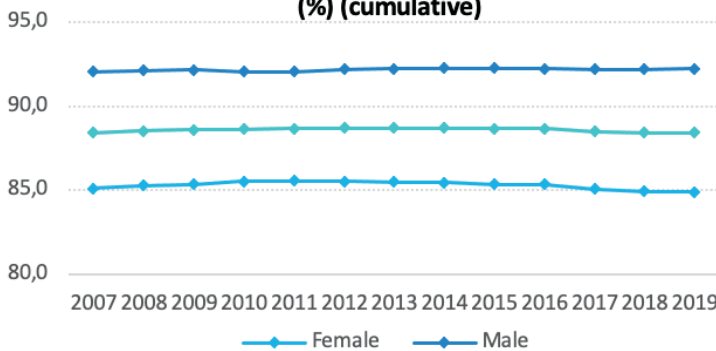


Source: The State statistical committee of Azerbaijan

ii) Living conditions

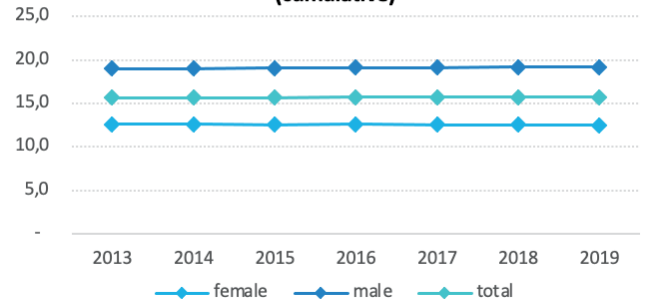
A key building block of inclusive growth index refers to the indicators of quality of life and living conditions and cover such aspects as health, clean environment, education, access to essential services, safety and infrastructure, as well as financial inclusion. According to the data, the secondary education attainment level in Azerbaijan is high with almost 88.4% of the population ages 25 and above having upper-secondary educational attainment level in 2019[3]. However, the percentage of population age 25 and over, that attained or completed post-secondary non-tertiary education (vocational, secondary specialized) was 30% and no change observed in the last decade (Figure 3). The percentage of population ages 25 and over with bachelor's degree was 15.7% and similarly no change in the recent years (Figure 4). Notably, gender disparities persist at all levels of education attainment.

Figure 3. Azerbaijan: Educational attainment, at least completed upper secondary, population 25+, (%) (cumulative)



Source: Source: The World Bank (World Development Indicators)

Figure 4: Azerbaijan: Educational attainment, at least Bachelor's or equivalent, population 25+ (%) (cumulative)

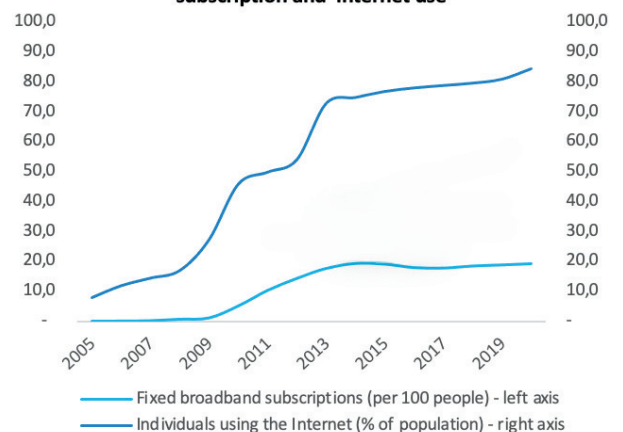


Source: Source: The World Bank (World Development Indicators)

Azerbaijan's performance on universal health coverage index reached 65 out of 100 in 2017, however, more recent data was not available. On financial coverage part of the universal health coverage index, high share of out-of-pocket expenditures is observed being equivalent to 3.0% of GDP or 65 percent of all health expenditures in 2020[4], which may hinder the access of vulnerable population to quality healthcare.

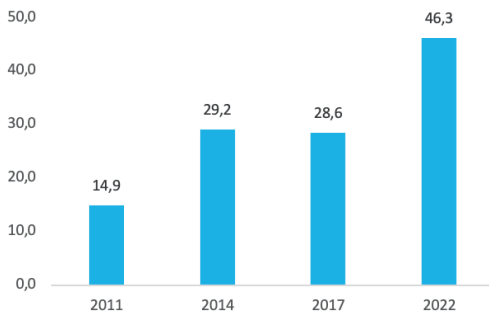
As to the population coverage with internet, almost 90% of population in Azerbaijan uses mobile internet. Fixed broadband subscriptions reached to around 20 per 100 subscriptions in 2014 but has not increased further since then. Recently released data by the World Bank's financial inclusion index (Findex) indicates that bank account ownership in Azerbaijan in 2022 reached to 46% of population aged 15 years and older. This is an important progress for expanding financial inclusion of the population. Despite the progress, however, Azerbaijan's performance on this indicator remains comparatively lower than some peer countries and the regional average.

Figure 5. (SDG 17.6.1) Azerbaijan: Fixed broadband subscription and internet use



Source: World Development Indicators (Original Source: International Telecommunications Union)

Figure 6. (SDG 8.10.2) Azerbaijan: Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+)



Source: Global Findex Database, World Bank
<https://www.worldbank.org/en/publication/globalfindex>

iii) Equality

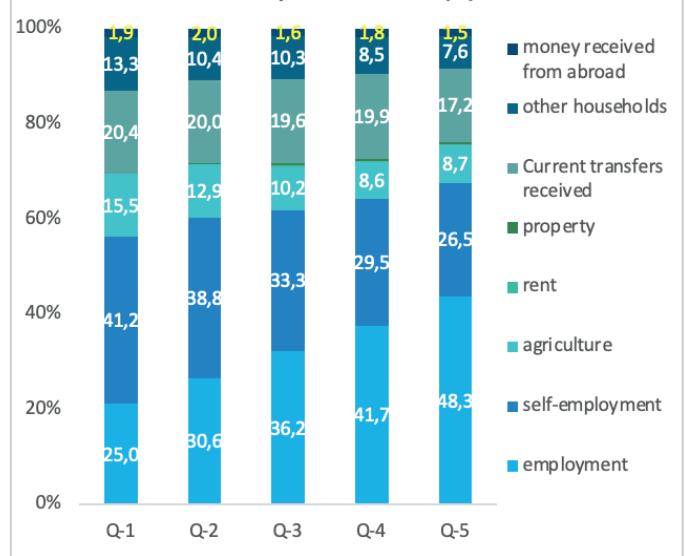
Measuring and understanding inclusive growth requires taking into consideration the impact of existing inequalities. It goes beyond income inequality and covers gender inequalities, participation, empowerment in society and others. As noted by the UNCTAD member States[5], high levels of inequality are the main obstacle to sustainable economic growth and poverty reduction.

According to official statistics, the national poverty rate reduced from 29.3% in 2005 to 5.7% in 2022, showing that the economic growth has translated to improving people’s wellbeing. Breakdown of household income by quintiles shows that the main source of income for households in the first quintile is self-employment, followed by employment and social transfers, while the main source of income of households in the fifth quintile is employment, suggesting that formal employment is instrumental for higher household incomes in Azerbaijan (Figure 7). Regional breakdown of per capita household income highlights the disparities across regions of the country, in particular, the share of households with per capita income of less than the subsistence minimum (AZN 246, 2023) is relatively high in Lankaran-Astara, Kazakh-Tovuz, Mountainous Shirvan, Mil-Mughan and Shaki-Zakatala economic regions. In 2021 the wages of women were on average 64.8% of that of men.

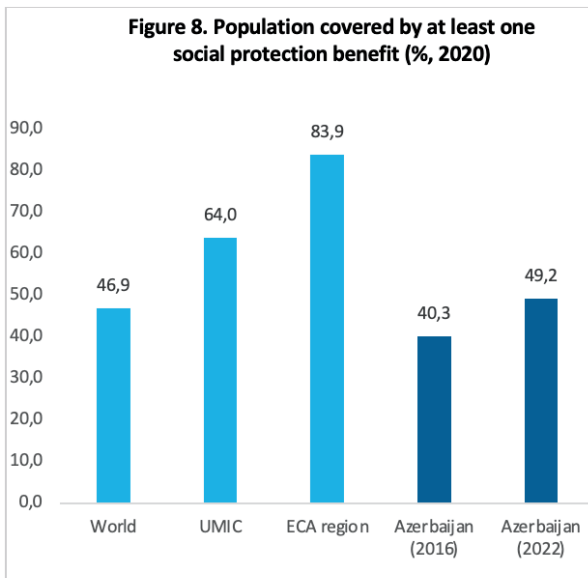
The gender wage gap was more significant in such areas as science and technology, financial services, transportation, manufacturing, and mining. What is notable, even in women dominated sectors, such as education, healthcare and culture, gender wage gap is observed.

Coverage of the population by at least one social protection benefit increased from 40.3% in 2016 to 49.2% in 2022 (Figure 8). The data also indicates universal coverage of persons with severe disabilities with disability benefits. Positive development is observed with regard to unemployment benefit, which is critical to sustain the livelihoods as well as to support upskilling and re-skilling of unemployed persons, the coverage of which increased from 1.6% in 2016 to 19.1% in 2020. On the other hand, in 2022, only 23.0% of households with children received child benefits, which is low compared to the regional average in Europe and Central Asia region. As the international practice shows, child benefits may serve instrumental in providing better opportunities for families to ensure required level of nutrition and educational opportunities, thus helping break the inter-generational cycle of poverty.

Figure 7. Sources of household income by income quintiles in 2022 (%)



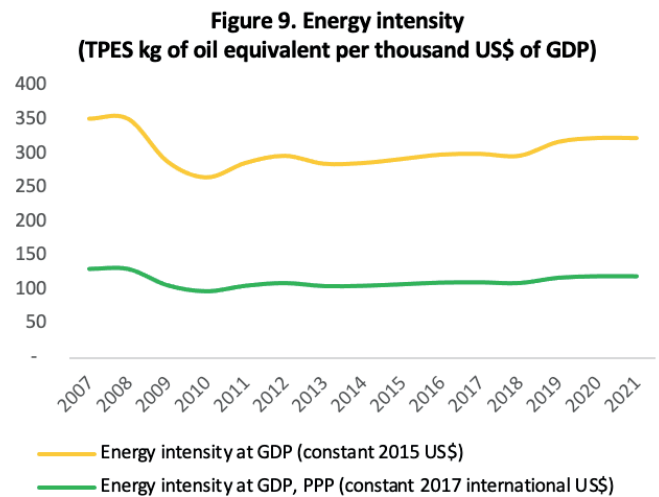
Source: The State statistical committee of Azerbaijan/
https://stat.gov.az/source/budzet_households/az/bul/bul_wtes_2022.pdf



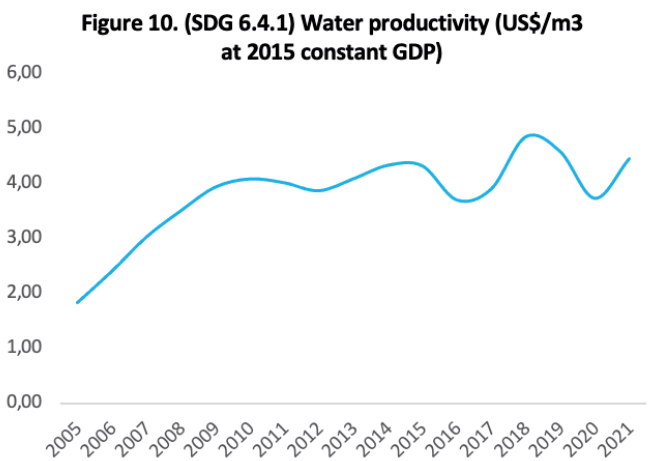
Source: ILOSTAT and Ministry of Labour and Social Protection of the Population of Azerbaijan

iv) Environment

According to the IGI concept, economic growth and socially inclusive co-production associated with greater economic opportunity will be unsustainable without efficient and sustainable use of natural resources (water, land, energy, etc.). The key is to create more economic value with fewer resources in order not to compromise people's future well-being. After dropping by around 46% between 1990 and 2000, the volume of greenhouse gas emissions has gradually increased in Azerbaijan, reaching 53.9 million tons of CO₂ equivalent in 2020. The energy sector continues to be the largest GHG emitter in the country accounting for 80% of total emissions. The energy intensity of Azerbaijan's economy, measured as a ratio of total primary energy supply to the unit of GDP, has reduced between 2007 and 2010, but then it was stagnant until gaining an upward trend between 2018 and 2021 (Figure 9). The recently adopted Law on energy efficiency can play a catalytic role in reversing this trend.



Source: State statistical committee of Azerbaijan, World Development Indicators, and calculations on their basis



Source: State Statistical Committee of Azerbaijan

Since 2012 water stress in Azerbaijan, measured in terms of freshwater withdrawal as a proportion of available water resources, has increased reaching 57% in 2021, and is rated high being between 40-80%. The volume of water consumption has also been increasing since 2014, mainly driven by increase in irrigation & agriculture. Concerning water use efficiency, water productivity improved from 1.85 USD of GDP/m³ in 2005 to 4.33 USD/m³ in 2014. It has been fluctuating since then, and slightly improved to 4.45 USD/m³ in 2021 from 3.73 USD/m³ in 2020 (Figure 10), suggesting the need for substantive measures to improve water use efficiency in the country.

IV. Conclusion and proposed recommendations

Building on the analysis of Azerbaijan's progress on inclusive growth indicators and the discussion on perspectives on further enhancing social and economic inclusiveness in Azerbaijan during the 2nd SDG Dialogue, the following recommendations are proposed to enhance social and economic inclusiveness and accelerate the achievement of SDGs in Azerbaijan.

a) Economy

- A new productivity push is needed in the economy that would ensure sustained growth and expansion. Efforts aimed at productivity enhancement should consider technological improvement and innovations in all spheres of the economy, better trade integration and diversification of exports, as well as expanded investments in skills, research and development and technology transfer. Such measures will be essential for increasing the share of added value of high and medium high technology industry in total added value to 15% by 2026, as stipulated in the Strategy of Socio-Economic Development in 2022-2026.
- Policies that target more balanced rural-urban development would be needed to boost the productive capacities and employment opportunities in all economic regions of the country, and thereby to reduce rural-urban income disparities, and to achieve the target of 42% share of rural areas in total output by 2026 in line with the Strategy of Socio-Economic Development in 2022-2026.

b) Public and social services

- Further investments to the expansion of access to fixed broadband connection would be important for accelerated digital transformation, while minimizing digital divide among the population. There has been significant progress on bank account ownership of the population, which is important for financial inclusion, but further efforts are needed to expand bank account ownership to cover the entire spectrum of the population.

- It is important to further examine the reasons of current trends in educational attainment in Azerbaijan at all levels of education, which seem to have not changed over the past decade. Further efforts might be needed to expand the access to schools especially at post-secondary and tertiary education with particular focus on ensuring gender parity.
- On the financial coverage part of the universal health coverage index, a high share of out-of-pocket expenditures continues to be an issue and may hinder the access to quality healthcare services particularly for vulnerable groups. Further expansion of the coverage of mandatory health insurance across all health services could provide a good solution to address this issue, but also it would be important to consider expanding the Government financing of the healthcare sector, which is low compared to peer countries.

c) Income disparities and social protection

- As the data shows slight increase in social protection coverage (according to ILO statistics and data from the Ministry of Labour and social Protection of the Population), attention shall be needed to minimize the inclusion/exclusion errors in the social protection targeting process. Alternatively, universal coverage schemes could be considered (e.g., universal or quasi universal child benefits).
- Targeted social protection schemes should be considered to protect the households in low-income groups from high food inflation, especially in the periods when relatively high food inflation is observed, among others due to global developments. Accordingly, a mechanism for better social protection for low-income and vulnerable groups during possible emergencies (economic recession, pandemic, etc.), i.e. shock-responsive social protection mechanisms, could be introduced.

- To address income disparities among the economic regions of the country, an expansion of employment opportunities should be further considered in Lankaran-Astara, Kazakh-Tovuz, Mountainous Shirvan, Mil-Mughan and Shaki-Zakatala economic regions, where the share of households with per capita income of less than the subsistence minimum is relatively high (according to official statistics). Expansion of support mechanisms will be important to enhance SME's access to finance and to larger trade networks.

d) Gender Equality

- It will be important to continue policies on reducing gender wage gap, which is more significant in science and technology, financial services, transportation, manufacturing, and mining sectors, with the view to increase the ratio of women's monthly average wages to men's monthly average wages to 80% by 2026 in line with the Strategy of Socio-Economic Development in 2022-2026.
- Further efforts are needed to increase the share of women in managerial positions both in public and private sectors, as well as in the Parliament. According to the available data, as of 2021 the share of women was 36.2% in managerial positions and 18.5% in the Parliament.
- Implementation of the state program for expansion of financial inclusion and ensuring equal access to public services will be important to enhance access to finance and implementation of gender budgeting (or gender sensitive budget policy) targeting women and girls from the vulnerable groups.
- Developing national legislation and strengthening the prevention policies against the patriarchal stereotypes and attitudes in the community, especially against sex selective abortions, sexual harassment and violence against women and girls would be needed (according to the official data, birth ratio is 100 girls to 114.5 boys).

e) Environment

- Policies and investments should be prioritized to reduce the carbon intensity of GDP, i.e. decoupling the GDP growth from CO2 emissions growth. This could be achieved through enhancing the institutional capacity to create effective regulations and incentives for green transition: integrated policies targeting green growth, green standards and regulations, incentives for green finance and investments, R&D and facilitation of green technology transfer, etc.
- Considering the increasing water stress in the economy, improving water use efficiency and water productivity of GDP should be prioritized going forward. This would require boosting investments in agriculture, water supply and waste treatment to enhance the sustainable use of land and water resources and ensure sustainable waste management.

Annex 1. Inclusive Growth Index Indicators

For the purposes of analysis of Azerbaijan's progress on inclusive growth and social inclusion, the IGI developed by UNCTAD and ECE, will be used as reference. The IGI is comprised of four pillars: 1. Economy; 2. Living conditions, 3. Equality and 4. Environment, with selected 27 indicators, aligned with both global and national SDG targets. Additional indicators on expenditures on health, education, social protection were added under Pillar 3. (See Table 1)

Table 1. Applied IGI Indicators for Azerbaijan

#	Pillar	Indicator	SDGs	Alignment with national SDG targets
1	Pillar 1 (Economy)	GDP per capita PPP (constant 2011 international US dollars)	SDG 8.1.1	8.1.1 Annual growth rate of real GDP per capita
2		Adjusted net national income per capita (constant 2010 USD)	N/A	N/A
3		Labour productivity, USD/person (GDP per person employed (constant 2011 PPP USD))	SDG 8.2.1	8.2.1 Annual growth rate of real GDP per employed person
4		Employment rate (ratio to labour force), 15+, total (%) (modeled ILO estimate)	SDG 8	N/A
5		Electric power consumption, kWh/person	SDG 7	(Partially) 7.1.1 Proportion of population with access to electricity
6		Exports of goods and services (% of GDP)	SDG 17.11.1	N/A
7	Pillar 2 (Living conditions)	Logistics performance index: Overall (1=low to 5=high)	N/A	N/A
8		Fixed Internet broadband subscriptions per 100 people, units	SDG 17.6.1	17.6.1 Fixed Internet broadband subscriptions per 100 inhabitants, by speed ⁵
9		Under-five mortality rate (deaths per 1.000 live births)	SDG 3.2.1	3.2.1 Under-5 mortality rate
10		People using safely managed drinking water services (% of population)	SDG 6.1.1	6.1.1 Proportion of population using safely managed

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10		People using safely managed drinking water services (% of population)	SDG 6.1.1	6.1.1 Proportion of population using safely managed

				drinking water services
11		School enrollment, secondary (% gross)	SDG 4	N/A
12		Coverage of essential health services	SDG 3.8.1	3.8.1 Coverage of essential health services
13		Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider	SDG 8.10.2	8.10.2 Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider
14	Pillar 3 (Equality)	Income concentration ratio (Gini index), units	SDG 10	N/A
15		Poverty headcount ratio at 5.50 USD a day (2011 PPP) (% of population)	SDG 1.1.1	N/A (only SDG indicator 1.2.1 Proportion of population living below the national poverty line, by sex and age)
15a*		Government expenditure on education as percentage of total government expenditure	SDG 1.a.2 Proportion of total government spending on essential services (education, health and social protection)	SDG 1.a.2 Proportion of total government spending on essential services (education, health and social protection)
15b*		Government expenditure on health as a percentage of total government expenditure		
15c*		Government expenditure on social security and welfare as percentage of total government expenditure		
16			School enrollment, secondary (gross), gender parity index (GPI)	SDG 4

17		Ratio of female to male employment rate (modeled ILO estimate)	SDG 8	N/A
18		Ratio of youth to adult employment rate (modeled ILO estimate)	SDG 8	N/A
19		Gender parity in the number of seats held by women and men in national parliaments	SDG 5.5.1	5.5.1 Proportion of seats held by women in (a) national parliaments and (b) local governments
20		Ratio of female to male labour force participation rate (%) (ILO modeled estimate)	SDG 8	N/A
21		Ratio of female age of first marriage to male age of first marriage	N/A	N/A
22		Ratio of the share of wage and salaried workers in women's employment to men's employment	SDG 10	N/A
23		Share of women's service employment to total employment, raised to the power of the inverse of the Palma ratio	N/A	N/A
24	Pillar 4 (Environment)	CO2 emissions (kg per PPP USD of GDP)	SDG 9.4.1	N/A
25		Energy intensity level of primary energy (MJ/\$2017 PPP GDP)	SDG 7.3.1	7.3.1 Energy intensity measured in terms of primary energy and GDP
26		Efficiency of water use (water productivity)	SDG 6.4.1	N/A
27		Terrestrial protected areas (% of total land area)	SDG 15.1.2	15.1.2 Proportion of important sites for terrestrial and freshwater biodiversity that are covered by protected areas, by ecosystem type