

Poverty in Azerbaijan

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Abstract

Azerbaijan's economy collapsed after the dissolution of the Soviet Union, but then grew rapidly as energy resources came on line. The new wealth reduced overall poverty rates, but the benefits were not spread evenly among the population, with older people, women, and refugees suffering the most. One of the most effective anti-poverty reforms was the privatization of land. While Azerbaijan has made considerable progress in poverty reduction, more needs to be done to reduce the level of inequality in the country.

A Rollercoaster Transition

Even before the Soviet Union collapsed, Azerbaijan was one of its poorest republics. Nevertheless, the transition in Azerbaijan began earlier than in other parts of the country. The conflict with neighboring Armenia over the Nagorno-Karabakh enclave had led to a transportation blockade and a breakdown in economic cooperation with other Soviet republics as early as 1988. The deep economic recession after the collapse of the USSR in 1991 was followed by an influx of Azerbaijani refugees from Armenia, Nagorno-Karabakh, and the regions around it. Between 1992 and 1994, real GDP declined as much as 20% and inflation drove prices to 23,000 times their previous levels.

However, by the mid-1990s, the economy began a slow, but steady, process of recovery with loans from multinational financial institutions and the inflow of foreign direct investments to the oil industry. Consequently, inflation fell to 20% by 1996, and even turned into deflation by 1998. The economy stopped shrinking by 1996. By 2002, Azerbaijan had begun to experience one of the fastest rates of economic growth among the CIS countries. The country's GDP has increased every year since 1996. By 2001, Azerbaijan's exports outside the former USSR reached 90% of total exports and the fiscal deficit dropped below 1%. The index of real wages (1998=1) reached 2.3 in 2003.

Improving Conditions

Macro-economic stability coupled with accelerated economic growth improved the population's welfare. From 2001 to 2008, public spending increased from 20% to 70% of non-oil GDP, the minimum wage increased by more than 6,700%, and the average wage increase exceeded 650%. As a result, per capita income jumped by over 90% from 2001 to 2005 and further sky-rocketed by 100% from 2006 to 2008, exceeding \$3,800.

Poverty, as measured by the national poverty line, dramatically plummeted from 76% to 49% from 1995 to 2002. According to the most recent estimates, poverty further declined to 13% by the end of 2008. Consumption by the poorest quintile (the lowest 20% of

total population) grew from 6.7% to 12.3% of total consumption from 1995 to 2002. To better understand the impressive poverty reduction achievement of Azerbaijan, it is instructive to compare it with the neighboring countries using the international poverty line of 2.15 USD purchasing power parity (PPP) per day. The poverty rate declined in Azerbaijan to 4% by 2003. In comparison, poverty in 2003 was much higher in the neighboring Armenia—50%—and Georgia—52%.

Uneven Spread of Benefits

However, gains from accelerated economic development and poverty reduction have not spread evenly to all groups of the population. The younger generation, 18–29 year olds, appear to benefit more from the transitional processes. There are two main explanations for this phenomenon. First, there is a rapid depreciation of human capital during transition. The transitional labor market in Azerbaijan has more opportunities for employees with professional skills, for instance, the ability to operate a vehicle, the knowledge of a foreign language, or the ability to work with modern information technology. These skills can be acquired through short-term education and professional training at work (e.g. foreign language and computer skills). Nevertheless, the current educational system in Azerbaijan still emphasizes classic multiyear academic training, overlooking continuing education, while the majority of employers are also not prepared to offer continuing education opportunities for their personnel. Second, the transitional survival strategies of younger and older individuals are different. The younger individual will more likely switch from a career in his or her previous official profession to newly-emerging highly-paid informal income generation strategies. Conversely, older individuals with more education and experience are less likely to switch to any new job opportunities, especially if these opportunities are informal ones such as private tutoring or turning your car into a taxi.

Although the education system is only poorly connected to the labor market and the revival of the education system in Azerbaijan lags behind other transi-

tional countries, education remains a strong predictor of higher welfare. A university degree has the largest positive impact on increasing income, while the effect of vocational education is lower. Hence, investing in human capital could be an important poverty reduction strategy. However, the poor often do not have access to educational opportunities. Children in poor households have fewer opportunities to enroll in early childhood education and development programs and are more likely to drop out of compulsory school education. They have fewer resources to hire private tutors who can help pass the mandatory national exam required to matriculate to universities. Since the introduction of tuition fees, many youth from poor families cannot afford higher education and have to enter the labor market immediately after high school. Consequently, ensuring equal access to education and reforming the educational system continue to be challenges in Azerbaijan.

Women are also among those who benefitted less from the transition. In 1990, women constituted almost half of the workforce, while only 1 in 6 women of working age in urban areas were employed by 2004. The level of economic activity among females is 51%, while among men this indicator exceeds 75%. In the 25–39 age group, the likelihood of women being inactive in the workforce is 5 to 6 times higher than that of men. There are several explanations for this phenomenon. Employers are reluctant to hire a female employee who is likely to go on maternity leave, or to ask for sick leave to care for children. In addition, the number of kindergartens has dropped considerably during the transition, while fees per child have significantly increased. Many women have to stay home to care for their children. Similarly, as government-funded social programs for the sick, disabled, and elderly have been cut significantly, women have had to spend more time at home to compensate. Moreover, family members often discourage women from pursuing a professional career. But, even if a woman is employed, she is likely to earn less than a man inasmuch as women are traditionally concentrated in the state-sector where wages are low. For instance, women constitute 57% and 69% percent of the total workforce in social services and education, and 76% in healthcare. Furthermore, even in the fields where women typically are better represented, men occupy the more senior and better-paid positions. In health care and social services, for example, women's salaries comprise of only 54% of men's.

Another population group at highest risk of poverty are the internally-displaced people (IDP) from Nagorno-Karabakh and related territories. This category of the population lacks employment opportunities and has to rely on government transfers as the main source of

income. The IDPs who reside in public dwellings are relatively better off compared to those who reside outside of public dwellings by renting accommodations or living with relatives. The former group benefits more from targeted government and non-government programs aimed at helping IDPs, while the latter constitutes a group of the "invisible" poor.

The households with a larger number of dependents are also disadvantaged. The reduction in public expenditures for programs aimed at dependents, such as children, the elderly, sick, and the disabled, led to an increase in the share of households' out-of-pocket expenses. The ineffective system of social protection transfers further exacerbates the situation. Benefits are often inadequate to lift households out of poverty. But even these modest benefits are not well targeted to the neediest.

Successful Land Reform

In comparison, land reform was one of the few effective measures to reduce poverty. Before the reform, access to land was one of the strongest predictors of wealth. Although legally there could not be private farms in Azerbaijan in the early 1990s, access to the land of decaying collective farms was the mainstay of unofficial economic activities in rural areas. Managers of the former collective farms would unofficially privatize or rent land and equipment and charged fees for others to use these resources. The common view in the rural areas was that the collective farms were being looted. A small group of the affluent were able to exploit all the others by monopolizing access to the land. Those with access to land achieved a higher quality of life by selling their goods on the market.

Under these circumstances, Azerbaijan opted for radical land reform. The country privatized 95% of all arable land, which left only 5% of land in state ownership. In comparison, in Armenia the state land reserve is about 15%, while in Georgia it is about 40%. Similarly, about 98% of eligible households received land during the reform in Azerbaijan compared with 60% in Bulgaria and 37% in Kazakhstan. Moreover, the process of distributing land in Azerbaijan was perceived as fairer than in other countries. About 92% percent believed that land distribution in Azerbaijan was fair and just compared with only 60% in Kazakhstan, 65% in Bulgaria, and 53% in Moldova. As a result of the fair distribution of land, having access to land ceased to be an important determinant of joining the ranks of the rich in Azerbaijan by 2002.

Another important dimension of poverty is regional. Urban areas experienced higher rates of poverty reduction than rural ones, while among urban areas, the oil-booming capital Baku experienced more significant pov-

erty reduction than any other urban area. Although Baku has a lower level of poverty than other regions, the gap between the capital and the rest of the country has narrowed during the last 5–6 years. Uneven regional poverty reduction is explained by the lack of a unified nationwide labor market, poor infrastructure (e.g. unreliable water, gas, and electricity supply, and the lack of reliable transportation), as well as the lack of mechanisms to connect government expenditures by region to specific regional priorities.

Poverty Metrics

The main critique of current poverty reduction metrics is that they utilize an absolute poverty line, whether it is the national poverty line or the international poverty line of 2.15 USD PPP per day. Although poverty dropped in Azerbaijan as measured by these metrics and is now much lower than in the neighboring countries, the comparative subjective assessments of well-being portray a very different picture. About 14% and 35% of Azerbaijan's population consider themselves very poor and poor. This is close to the 14% and 34% of Georgians who consider themselves very poor and poor. Likewise, about 10% of Azerbaijan's population believes that their household belongs to the lowest strata of society as compared with 12% of the population in Georgia. These data demonstrate that people in Azerbaijan, as in many other countries, have a tendency to measure their own

poverty in comparison with the economic situation of friends, co-workers, and neighbors across the country. In other words, regardless of Azerbaijan's impressive absolute poverty reduction, it is now time to pay attention to relative poverty and inequality.

Indeed, approximately 55% of Azerbaijan's population believes that poverty is caused by factors beyond the direct control of individuals, such as the failure of the socio-economic system or a lack of equal opportunities in society. Only 22% believe that bad luck is the main cause of poverty and 11% believes that causes of poverty are individualistic such as loose morals, lack of effort and responsibility, and drunkenness. The widespread acceptance of the structural explanation for poverty highlights the existing support for poverty and inequality reduction strategies. It is not surprising against this backdrop that 87% believe that the state should be strongly involved in reducing the gap between the poor and the rich.

In the light of the above evidence, we can conclude that Azerbaijan achieved remarkable progress in poverty reduction since the collapse of the Soviet Union and the beginning of the transition. Nevertheless, much more needs to be done. The main agenda for reforms includes increasing the effectiveness of the educational system and ensuring equal access to education; improving the social protection system and restoring social services for children, the sick, disabled, and elderly; gender mainstreaming poverty reduction, and reducing regional inequalities.

About the Author

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Understanding Poverty in Georgia

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Abstract

Over the last two decades, the profile of the poor has been evolving in Georgia, but the poverty level has remained consistently high. If the official subsistence minimum is taken as the poverty line, slightly more than two-fifths of the population is poor according to the latest estimations. Arguably, persisting high poverty levels can be explained by jobless economic growth and low agricultural productivity. The institutionalisation of a targeted social assistance scheme has yet to demonstrate its efficacy. Instead of using perverse estimates of relative poverty, the government should acknowledge deprivation as the major challenge for the country and must more eagerly attempt to cure its root causes—inappropriate human capital and narrow labour markets.

Poverty Profile in Making

The poverty profile, which describes the typical charac-

teristics of the poor, has been in constant flux in transitional Georgia. The analysis of the Central and Eastern